ITEM 1008-D Y1.1/8:97-530/PT.2

97TH CONGRESS 2d Session } HOUSE OF REPRESENTATIVES { REPT. 97-530 Part 2

COMPLETED ORIGINAL

DEFENSE INDUSTRIAL BASE REVITALIZATION ACT

MAY 17, 1982.—Committeed to the Committee of the Whole House on the State of the Union and ordered to be printed

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Mr. ST GERMAIN, from the Committee on Banking, Finance and Urban Affairs, submitted the following

REPORT

together with

ADDITIONAL, MINORITY, SUPPLEMENTAL, AND DISSENTING VIEWS

[To accompany H.R. 5540 which on February 10, 1982, was referred jointly to the Committee on Banking, Finance and Urban Affairs and the Committee on Education and Labor for a period ending not later than May 15, 1982]

[Including cost estimate of the Congressional Budget Office]

The Committee on Banking, Finance and Urban Affairs, to whom was referred the bill (H.R. 5540) to amend the Defense Production Act of 1950 to revitalize the defense industrial base of the United States, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

The amendment is as follows:

Strike out all after the enacting clause and insert in lieu thereof the following:

SHORT TITLE

SECTION 1. This Act may be cited as the "Defense Industrial Base Revitalization Act".

STRENGTHENING OF DOMESTIC CAPABILITY

SEC. 2. Title III of the Defense Production Act of 1950 (50 U.S.C. App. 2091 et seq.) is amended by inserting after section 303 the following:

"SEC. 303A. (a) It is the purpose of this section to strengthen the domestic capability and capacity of the Nation's defense industrial base. The actions specified in this section are intended to facilitate the carrying out of such purpose.

"(b)(1) The President, utilizing the types of financial assistance specified in sections 301, 302, and 303, and any other authority contained in this Act, shall take immediate action to assist in the modernization of industries in the United States which are necessary to the manufacture or supply of national defense materials which are required for the national security or are likely to be required in a time of emergency or war.

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"(2) Such assistance shall be provided only to small- and medium-sized businesses, as defined by the Secretary of Commerce, unless the President transmits to the Congress a formal notification that the interests of national defense require an exception to this limitation.

"(c) The Secretary of Defense, in consultation with the Secretary of Commerce, shall—

"(1) determine immediately, and semiannually thereafter, those industries which should be given priority in the awarding of financial assistance under subsection (b);

"(2) determine the type and extent of financial assistance which should be made available to each such industry; and

"(3) with respect to the industries specified pursuant to paragraph (1), indicate those proposals, received under subsection (e), which should be given preference in the awarding of financial assistance under subsection (b) based on a determination that such proposals offer the greatest prospect for improving productivity and quality, and for providing materials which will reduce the Nation's reliance on imports.

"(d)(1) The President shall extend assistance under sections 301, 302, and 303, and any other authority contained in this Act, to persons engaged in the expansion of the domestic capability and capacity to produce or process critical and strategic metals, minerals and materials, including—

"(A) the conservation, substitution, and recycling of such metals, minerals, and materials; and

"(B) the development of processes which lessen or obviate the need for such critical and strategic metals, minerals, and materials.

"(2) The President shall exercise the authority granted under this subsection in consultation with the Secretary of Defense, the Secretary of the Interior, the Secretary of Commerce, and the Director of the Federal Emergency Management Agency.

"(e) The President, in extending assistance under subsections (b) and (d), shall extend such assistance on the basis of proposals submitted in response to a series of public solicitations, the first of which shall be issued by the President within ninety calendar days following the date of the enactment of this section.

"(f)(1) Any contract for financial assistance which is awarded under subsection (b) or (d) and which utilizes financial assistance through purchase agreements specified in section 303 shall provide that the President has the right to refuse delivery of the items specified in such contract and to pay the person involved an amount equal to the amount by which the price for such items, as specified in the contract involved, exceeds the market price, as determined by the Secretary of Commerce, for such items on the delivery date specified in such contract.

"(2) Financial assistance under subsections (b) or (d) shall not be extended to assist establishment relocating from one area to another or to assist persons whose purpose is to divest, or whose economic success is dependent upon divesting, other persons of contracts theretofore customarily performed by them, except that such limitation shall not be construed to prohibit such financial assistance for the expansion of an existing business entity through the establishment of a new branch, affiliate, or subsidiary of such business entity if the President finds that the establishment of such branch, affiliate, or subsidiary will not result in an increase in unemployment of the area of original location or in any other area where such entity conducts business operations, unless the President has reason to believe that such branch, affiliate, or subsidiary is being established with the intention of closing down the operations of the existing business entity in the area of its original location or in any other area where it conducts such operations.

"(g)(1) There are authorized to be appropriated to carry out the provisions of subsections (b), (c), and (d) not to exceed $1,000,000,000 for each fiscal year beginning with fiscal year 1983 and continuing through fiscal year 1987. Such sums shall remain available until expended.

"(2)(A) In the use of loan guarantees, price guarantees, and direct loans as Federal financial incentives to accomplish the objectives of this section, the President may utilize the borrowing authority of the Treasury to the extent that the estimated ultimate net cost of such incentives to the Government does not exceed the total of appropriations made by the Congress to carry out the provisions of subsections (b), (c), and (d). Such estimates shall be based upon the past experience of the actual costs of Federal financial incentives under this Act and related expenses.

"(B) The use of loan guarantees, price guarantees, and direct loans under this section and the use of the borrowing authority of the Treasury under this subsection shall be effective for any fiscal year only to such extent or in such amounts as are provided in advance in appropriations Acts.

"(h)(1) The President shall take immediate action to develop and implement a national program to train workers in skills—

"(A) which the President determines are necessary in the industries identified under subsection (b), (c), or (d); and

"(B) which the President determines are in short supply or are anticipated to be in short supply.

"(2)(A) Assistance under this program shall be in the form of a grant to a State board of vocational education or other agency or agencies designated by the Governor of the State involved. Such grants may be extended only if a State plan for a five-year program of skills training has been submitted to the President and approved by the President.

"(B) The President may, to the extent possible—

"(i) provide assistance in coordinating the State plans developed under this subsection; and

"(ii) provide technical assistance and support services in the implementation and conduct of programs of skills training which are carried out under this subsection.

"(3) The President shall not approve any State plan unless—

"(A) the State plan has been developed with the management and workers of the industries involved and with public and private educational institutions of the State;

"(B) the State plan includes workplace training and registered apprenticeship training programs;

"(C) the State plan is designed to ensure meaningful opportunities for participation by minorities and women;

"(D) the Governor of the State has certified in writing that the State plan will be carried out and that it meets the requirements of this subsection;

"(E) the State plan includes—

"(i) training;

"(ii) upgrading skills; and

"(iii) retraining of workers, in depressed industries, in surplus labor areas, or with occupational skills which might become obsolete because of industrial modernization or technological advancement, in skills which the President determines under paragraph (1) are necessary in the industries identified under subsection (b), (c), or (d) as necessary to the manufacture or supply of national defense materials which are required for the national security or are likely to be required in a time of emergency or war;

"(F) any bona fide public or private training program engaged in training workers in skills described in paragraph (1) is considered eligible to deliver such training services upon written application to the State board of vocational education or other agency or agencies designated by the Governor of the State involved under paragraph (2)(A);

"(G) the State employment and training council under Public Law 95-524 (or a comparable entity under a successor statute) has been given the opportunity—

"(i) to participate in the development of the plan;

"(ii) to review the plan for 30 days prior to its submission to the President; and

"(iii) to submit written comments along with the submission of the plan to the President;

"(H) the activities funded under this subsection will not duplicate facilities or services available in the area (with or without reimbursement) from Federal, State, or local sources, unless the plan provides evidence that alternative services or facilities would be more effective or more likely to achieve the objectives in paragraph (1) of this subsection;

"(I) the plan contains assurances that the activities funded under this subsection will be coordinated to the maximum extent feasible with other employment related programs in the State, through joint agreements, where practicable, with programs funded under the Comprehensive Employment and Training Act (or a successor statute) to assure maximum participation

of eligible participants under that Act (or statute) in training programs funded under this subsection, and through consultation and coordination with certified apprenticeship plans, where such plans are in effect, to ensure that the plan does not duplicate or undermine existing certified apprenticeship programs; and

"(J) a certification is included which assures the following labor training standards and requirements will be met:

"(i) Conditions of training shall be appropriate and reasonable in the light of such factors as the type of work, geographical region, and proficiency of the participant.

"(ii) Appropriate health, safety, and other standards for training shall be established and maintained.

"(iii) Appropriate workers' compensation or equivalent protection shall be provided to all participants.

"(iv) No currently employed worker shall be displaced by any participant (including partial dipslacement such as a reduction in the hours of nonovertime work, wages, or employment benefits).

"(v) No program shall impair existing contracts of employment.

"(vi) No person shall be trained for a job (I) when any other employee in the same workplace or plant is on layoff from the same or any substantially equivalent job, or (II) when the employer has terminated the employment of any regular employee or otherwise reduced its workforce with the intention of filling the vacancy so created by hiring a participant whose training is assisted under this subsection.

"(vii) No individual may be required to join a union as a condition of enrolling in a program assisted under this subsection in which only institutional training is provided, unless such institutional training is provided, unless such institutional training involves individuals employed under a collective-bargaining agreement which contains a union security provision.

"(viii) No funds available under this subsection may be used to assist, promote, or deter union organizing.

"(4) Any grant to a State board of vocational education, or other agency or agencies designated by the Governor of the State involved under paragraph (2)(A), under this subsection shall be extended in any year only after the State involved has provided a contribution, from public or private resources, to carry out the State plan in an amount—

"(A) in the first year of the State plan, equal to 10 per centum of the cost of the State plan for such year;

"(B) in the second year of the State plan, equal to 20 per centum of the cost of the State plan for such year;

"(C) in the third year of the State plan, equal to 30 per centum of the cost of the State plan for such year;

"(D) in the fourth year of the State plan, equal to 40 per centum of the cost of the State plan for such year; and

"(E) in the fifth year of the State plan, equal to 50 per centum of the cost of the State plan for such year.

"(5) A State's contribution may include 'in kind' contributions of equipment, facilities, personnel, or services to the extent that such 'in kind' contribution is utilized in carrying out the State's plan. No such 'in kind' contribution may include equipment acquired under subsection (i).

"(6) The President shall act upon each State plan not later than ninety days after the date on which such State plan is received. Such action shall be based upon the recommendations of the Secretary of Defense, the Secretary of Labor, and the Secretary of Education.

"(7) No person shall be excluded from participation in, denied the benefits of, subjected to discrimination under, or denied training in the administration of or in connection with any such program because of race, color, religion, sex, national origin, age, handicap, or political affiliation or belief.

"(8) Not more than 5 percent of the amount of any grant made under this subsection may be used by a State board of vocational education, or other agency or agencies designated by the Governor of the State involved under paragraph (2)(A), for administrative expenses incurred in carrying out a State plan.

"(9) Assistance under this subsection may be used to purchase and install equipment for training purposes. The purchase of any such equipment shall be done by means of competitive bidding.

"(10) For purposes of installing Government-owned equipment pursuant to section 303(e), the term 'industrial facilities', as used in such section, shall include vocational schools, other schools offering technical and vocational training programs, and any other location in which workers are trained pursuant to this subsection.

"(11) There are authorized to be appropriated to carry out the provisions of this subsection not to exceed $250,000,000 for each fiscal year beginning with fiscal year 1983 and continuing through fiscal year 1987. Such sums shall remain available until expended.

"(i)(1)(A) The President shall take immediate action to develop and implement a grant program to assist colleges, universities, and other institutions of higher education in obtaining and installing modern equipment which shall be used to train professional, scientific, and technical personnel who are needed in the industries identified under subsection (b), (c), or (d).

"(B) All students and faculty studying, teaching, or conducting research at such an institution of higher education shall have access to such equipment for use in accordance with regulations and practices of such institution of higher education.

"(2) Any college, university, or other institution of higher education which desires to receive a grant under this subsection may submit an application to such Federal department or agency as the President shall designate. Each such application shall—

"(A) certify the cost of purchasing and installing the equipment involved; and

"(B) contain such other information as the President deems necessary.

"(3)(A) Each college, university, or other institution of higher education whose application is approved under this subsection may be required to provide a matching share of up to 50 percent of the cost of purchasing and installing the equipment involved.

"(B) The purchase of any such equipment shall be done by means of competitive bidding.

"(4) At the discretion of the President, equipment may be provided under section 303(e) to colleges, universities, and other institutions of higher education. For the purpose of such section, the term 'industrial facilities' shall include colleges, universities, and other institutions of higher education.

"(5) There are authorized to be appropriated to carry out the provisions of this subsection not to exceed $100,000,000 for each fiscal year beginning with fiscal year 1983 and continuing through fiscal year 1987. Such sums shall remain available until expended.

"(j) Any equipment or plant financed through Federal assistance authorized by this section shall be of United States origin. No exception shall be made to this limitation unless the Secretary of Commerce makes a written determination that such equipment or plant of United States origin is not available and is not practicable to obtain.

"(k) The Comptroller General of the United States shall monitor the implementation of this section, conduct such audits as he determines to be necessary, and submit an annual report of his findings to the Congress at the beginning of each session of the Congress. The first such annual report shall be submitted in the year following the enactment of the Defense Industrial Base Revitalization Act.

"(l) In order to carry out the purposes of this section, the Office of Technology Assessment is directed to conduct a study of the public facilities or infrastructure essential to the defense industrial base, and, at the beginning of each Congress, to report to the Congress with appropriate recommendations for measures to avoid serious impediments to the production and distribution of materiel.

"(m)(1) All laborers and mechanics employed for the construction, repair, or alteration of any project, or the installation of equipment, funded, in whole or in part, by a guarantee, loan, or grant entered into pursuant to this section shall be paid wages at rates not less than those prevailing on projects of similar character in the locality as determined by the Secretary of Labor in accordance with the Act entitled 'An Act relating to the rate of wages for laborers and mechanics employed on public buildings of the United States and the District of Columbia by contractors and subcontractors, and for other purposes', approved March 3, 1931 (40 U.S.C. 276a et seq.) and commonly known as the Davis-Bacon Act.

"(2) Guaranteeing agencies shall not extend guarantees and the President shall not make loans or grants for the construction, repair, or alteration of any project,

or the installation of equipment, unless a certification is provided to the agency or the President, as the case may be, prior to the commencement of construction or at the time of filing an application for loan, guarantee or grant, if construction has already commenced, that these labor standards will be maintained at the project.

"(3) With respect to the labor standards specified in this subsection, the Secretary of Labor shall have the authority and functions set forth in Reorganization Plan Numbered 14 of 1950 and section 276(c) of title 40, United States Code.

"(n) On October 1, 1982, and on the first business day of every second month beginning after such date, the President shall transmit a report to both Houses of the Congress listing all loans, loan guarantees, and commitments for loan guarantees which were issued under this section during the two calendar months preceding the transmittal date of the report involved.

"(o) For purposes of this section—

"(1) the term 'apprenticeship plan' means a plan approved by the Secretary of Labor pursuant to the National Apprenticeship Act (29 U.S.C. 50 et seq.);

"(2) the term 'State' means any of the several States, the District of Columbia, the Commonwealth of Puerto Rico, Guam, the Virgin Islands, the Northern Mariana Islands, American Samoa, the Trust Territory of the Pacific Islands, or any other territory or possession of the United States; and

"(3) the term 'United States' means the several States, the District of Columbia, the Commonwealth of Puerto Rico, Guam, the Virgin Islands, the Northern Mariana Islands, American Samoa, the Trust Territory of the Pacific Islands, and any other territory or possession of the United States.".

Amendments to Defense Production Act of 1950

Sec. 3. (a) Section 2 of the Defense Production Act of 1950 (50 U.S.C. App. 2062) is amended to read as follows:

"Declaration of Policy

"Sec. 2. (a)(1) In view of continuing international problems, the Nation's demonstrated reliance on imports of materials and components, and the need for measures to reduce defense production lead times and bottlenecks, and in order to provide for the national defense and national security, our defense mobilization preparedness effort continues to require the development of preparedness programs, defense industrial base improvement measures, and the expansion of domestic productive capacity and supply beyond the levels needed to meet the civilian demand. Also required is some diversion of certain materials and facilities from civilian use to military and related purposes.

"(2) These activities are needed in order to improve defense industrial base efficiency and responsiveness, to reduce the time required for industrial mobilization in the event of an attack on the United States or to respond to actions occurring outside the United States which could result in the termination or reduction of the availability of strategic and critical materials, including energy, and which could adversely affect the national defense preparedness of the United States. In order to insure the national defense preparedness which is essential to national security, it is also necessary and appropriate to assure the availability of domestic energy supplies for national defense needs.

"(b)(1) In order to insure productive capacity in the event of an attack on the United States, it is the policy of the Congress to encourage the geographical dispersal of the industrial facilities of the United States in the interest of the national defense, and to discourage the concentration of such productive facilities within limited geographical areas which are vulnerable to attack by an enemy of the United States.

"(2) In the construction of any Government-owned industrial facility, in the rendition of any Government financial assistance for the construction, expansion, or improvement of any industrial facility, and in the production of goods and services, under this or any other Act, each department and agency of the executive branch shall apply, under the coordination of the Office of Defense Mobilization, when practicable and consistent with existing law and the desirability for maintaining a sound economy, the principle of the geographical dispersal of such facilities in the interest of national defense. However, nothing in this paragraph shall preclude the use of existing industrial facilities.

"(3) To ensure the adequacy of productive capacity and supply, executive agencies and departments responsible for defense acquisition shall continuously assess the capability of the defense industrial base to satisfy near-term requirements as well as increased mobilization production requirements. Such assessments shall specifically evalaute the availability of adequate production sources, including subcontractors and suppliers, materials, and skilled labor, and professional and technical personnel.

"(4) It is the policy of the Congress that plans and programs to carry out this declaration of policy shall be undertaken with due consideration for promoting efficiency and competition.".

(b) Section 301 of the Defense Production Act of 1950 (50 U.S.C. App. 2091) is amended—

(1) in subsection (e)(1)(A), by striking out "$38,000,000" and inserting in lieu thereof "$50,000,000"; and

(2) in subsection (e)(1)(B)—

(A) by striking out "60 days" and inserting in lieu thereof "30 days";

(B) by striking out "60-day period" each place it appears therein and inserting in lieu thereof "30-day period";

(C) by inserting "(i)" after "such proposed obligation and"; and

(D) by striking out the period at the end of the first sentence thereof and inserting in lieu thereof the following: "or (ii) both Houses of Congress adopt a concurrent resolution approving such obligation. If the Congress adopts such a concurrent resolution, the guarantee involved may be made at any time after the date on which such concurrent resolution is adopted.".

(c) Section 302 of the Defense Production Act of 1950 (50 U.S.C. App. 2092) is amended—

(1) by striking out "60 days" and inserting in lieu thereof "30 days";

(2) by striking out "60-day period" each place it appears therein and inserting in lieu thereof "30-day period"; and

(3) in the second sentence thereof—

(A) by inserting "(A)" after "such proposed loan and"; and

(B) by striking out the period at the end thereof and inserting in lieu thereof the following: "or (B) both Houses of Congress adopt a concurrent resolution approving such loan. If the Congress adopts such a concurrent resolution, the loan involved may be made at any time after the date on which such concurrent resolution is adopted.".

(d) The first sentence of section 717(a) of the Defense Production Act of 1950 (50 U.S.C. App. 2166(a)) is amended by striking out "September 30, 1982" and inserting in lieu thereof "September 30, 1987".

(e) Section 720 of the Defense Production Act of 1950 (50 U.S.C. App. 2169) is hereby repealed.

(f) Section 701 of the Defense Production Act of 1950 (50 U.S.C. App. 2151) is amended by adding at the end thereof the following:

"(e)(1)(A)(i) Any person signing a contract which involves the sale of any defense article or defense service for use by a nation other than the United States and which includes an offset agreement in excess of $5,000,000 shall file an annual report with the Secretary of the Treasury. Each such report shall include the total of all offsets, classified by the category of the defense material or defense services involved, entered into by such person during the three calendar years preceding the year in which such report is filed. The first such annual report shall be filed with the Secretary of the Treasury not later than June 1, 1983. Subsequent annual reports shall be filed not later than June 1 of each year.

"(ii) Except as provided in subparagraph (B) and notwithstanding any other provision of law, including section 552 of title 5, United States Code (commonly known as the Freedom of Information Act), the Secretary of the Treasury shall not disclose, except to the Congress, any information required to be reported pursuant to this subparagraph.

"(B) Not later than the first October 1 occurring more than ninety days after the date of the enactment of this subsection and not later than each October 1 occurring after such October 1, the Secretary of the Treasury shall submit to the Committee on Banking, Housing, and Urban Affairs of the Senate and to the Committee on Banking, Finance and Urban Affairs of the House of Representatives a report on the total number of contracts reported pursuant to sub-

paragraph (A) and the total amount of offsets required by such contracts. Such report shall contain a breakdown of offsets by category of defense material or defense services involved and by recipient country.

"(2) For purposes of this subsection—

"(A) the term 'offset' means any international transaction between a buyer and seller that provides nonmonetary compensation which may include, but not be limited to, the transfer of production or technology to the buyer as a consideration for the purchase of a particular item or service; and

"(B) the term 'person' means any individual, sole proprietorship, partnership, or corporation.

"(3) This subsection shall cease to be effective five years after the date of the enactment of this subsection.".

Introduction and Brief Summary of the Legislation

H.R. 5540 responds to a problem facing the United States today which carries the potential for undermining the Nation's role as the leader of the free world as well as its once unsurpassed economic strength.

The problem is the state of our defense industrial base:

Support industries are shrinking and in some cases disappearing.

We are dangerously dependent on foreign imports for vital materials which fuel our industries.

Skilled workers are aging while qualified replacements are not emerging in sufficient numbers.

There is a shortage of manpower, in both the trades and the professions, with the necessary skills to design, build, operate and maintain modern machinery and equipment.

Colleges, universities and technical schools lack sufficient financial resources to furnish their classrooms and laboratories with the modern equipment necessary to provide the highest quality education in rapidly changing scientific and technical disciplines.

That this state of affairs exists at a time when unemployment is at its highest level since World War II, and when bankruptcies of businesses are occurring at an alarming rate, represents both a challenge and an opportunity.

The program initiatives of H.R. 5540 respond to the challenge that we must revitalize our industrial base. The revitalization program directed by the legislation provides the opportunity for job creation in place of job loss, productivity improvement instead of decline, and a resurgence of the global competitiveness necessary to the Nation's security and economic well-being.

The bill provides for financial assistance in the form of loans, loan guarantees, purchase agreements and price guarantees to high-priority small and medium-sized businesses which are necessary to the defense industrial base to enable them to modernize and upgrade their plant and equipment. Expansion of domestic production and processing of strategic and critical materials through the same types of financial incentives is also called for in the bill, with the requirement that the expansion program include conservation and recycling, substitution, and innovative processes which will reduce dependence on traditional forms of strategic materials.

$1 billion a year for each of the five fiscal years, 1983–1987, is authorized for this modernization and expansion program, with provi-

sion for leveraging loan guarantees, price guarantees and direct loans based on the estimated ultimate net cost to the Government.

The bill also establishes a skills training program to train workers in the skills which are required in the high-priority industries determined to be necessary to the defense industrial base. Workers with the necessary skills are in short supply in many cases, and shortages are growing. For grants on a cost-sharing basis to State boards of vocational education or other Governor-designated state agencies, $250,000,000 a year for each of the next five fiscal years is authorized to train and retrain workers in the necessary skills, and to upgrade skills of workers to meet the requirements of newer, more advanced machinery and equipment. The training program would be conducted in a variety of public and private training institutions in the States, as well as in workplace training locations.

H.R. 5540 would also make available $100 million a year for each of the five fiscal years 1983–1987 for grants to purchase and install modern equipment in schools of engineering and other institutions of higher education in order to provide state-of-the-art training of professional, scientific and technical personnel needed in the high-priority industries necessary to the defense industrial base.

H.R. 5540, as amended by the Committee, modernizes the language of the Declaration of Policy of the Defense Production Act of 1950 and makes certain other changes in the loan and loan guarantee provisions of the Act. The bill extends the authorities of the Act for five years, to September 30, 1987.

History of the Legislation

Throughout 1981, the Subcommittee on Economic Stabilization conducted an extensive series of hearings on "Revitalization and the U.S. Economy." Particular attention was given to the state of the country's industrial base. In the 26 days of hearings and in testimony from more than 125 witnesses representing government at all levels, industry, small and medium-sized and large businesses, the financial community, educators, professional associations, citizens groups, the military, and Members of Congress, three salient facts became clear:

First, the industries which produce and supply the parts and components which go into not only items which Americans depend on in their everyday living—from toasters to automobiles—but the material and equipment on which the defense of the country depends, are shrinking and in some cases disappearing;

Second, the skilled manpower and the trained technical, scientific and professional personnel needed in those industries are in short supply, and that shortage is growing; and

Third, for a number of strategic and critical materials, without which the necessary parts and components could not be manufactured, the country is dangerously dependent on foreign sources, some of them susceptible to abrupt supply cutoff.

Based on this knowledge, the bill, H.R. 5540, was developed in a bipartisan effort by the Subcommittee as amendments to the Defense Production Act of 1950.

The amendments represent a five-year program under Title III of the Act to address these three problem areas. They also would update

and bring into conformity with 1980's circumstances and Government practices certain other portions of the Defense Production Act, and would extend the authorities of the Act for five years, until September 30, 1987.

On February 10, 1982, H.R. 5540 was introduced in the House with James J. Blanchard, Chairman, and Stewart B. McKinney, Ranking Minority Members, of the Subcommittee on Economic Stabilization as chief sponsors, joined by seventeen members of the Banking Committee, both Majority and Minority. In an extraordinary action, the bill was referred to the Committee on Banking, Finance and Urban Affairs and the Committee on Education and Labor for a period ending not later than May 15, 1982 (since extended by the Speaker to May 17, 1982). On March 23, 1982, the Subcommittee conducted a hearing on the bill, at which representatives of the Departments of Defense, Commerce and Interior testified, as well as General Alton D. Slay (Ret.), U.S. Air Force; Gene Bottoms, Executive Director, American Vocational Association; and Dr. Edward Bloustein, President, Rutgers University. The Administration witnesses while concurring in the need for the revitalization of the U.S. defense industrial base, and supporting a five-year extension of the Act, expressed the belief that present initiatives for economic recovery would foster conditions for such a revitalization and declined to support the legislation. The public witnesses expressed strong support for the initiatives contained in H.R. 5540.

On March 24 the Subcommittee on Economic Stabilization met and ordered H.R. 5540 favorably reported, with amendments, to the Full Committee on Banking, Finance and Urban Affairs by a vote of 19 to 3.

On May 6, 1982, the Committee on Banking, Finance and Urban Affairs met to mark up the bill. After adopting a number of amendments, including amendments which represented joint recommendations by staffs of the Banking Committee and the Committee on Education and Labor, the Banking Committee ordered the bill favorably reported to the House by voice vote.

The Need For and Purpose of the Legislation

MODERNIZATION OF INDUSTRY

H.R. 5540, The Defense Industrial Base Revitalization Act, grew out of what Americans are learning the hard way is a sample, but self-evident truth:

The United States cannot be a first-rate world power with a second-rate industrial base.

H.R. 5540 clearly recognizes that the defense industrial base is made up not only of those companies currently holding defense contracts but it also includes specifically those industrial firms which likely would be called upon to manufacture or supply defense materials in time of emergency or war.

Estimates of the number of these companies vary but the figure 50,000 is most commonly cited. And for the most part, these are small and medium-sized businesses making essential "nuts and bolts" components without which our warplanes, tanks, missiles, warships and other weapons systems would not work. This bill directs much of its concern to this vital group of subcontractors and suppliers of goods

and services. They are the same companies which also make items we use in our civilian economy. The Department of Defense acknowledges that, in most cases, defense business utilizes less than 10 percent of a company's total productive capacity.

"Weapons systems are not produced in a captive defense industrial base, but are produced in the civilian sector along with commercial products," the Department says in its own internal memoranda. Thus, in a very real sense, the defense industrial base and the civilian industrial are virtually one and the same.

What is the condition of this industrial base? It is ailing financially. It is deteriorating with age and obsolescence. It lacks skilled people. It is losing the competitive war with foreign imports. It is growing weak at a time when strength is required. In short, it needs help.

That, in capsule form, is the collective judgment expressed by more than 125 witnesses who testified at 26 days of hearings by the Subcommittee on Economic Stabilization of the House Committee on Banking, Finance and Urban Affairs. Of course, the view was not unanimous. There were those who said given enough time and money, the problem would resolve itself. But, in the words of Subcommittee Chairman James J. Blanchard of Michigan, "We are running out of both."

One year ago when the Defense Production Act was simply extended for 12 months, Members of the Committee were almost unanimous in their bipartisan concern that the time between then and now be spent in studying ways to strengthen the defense industrial base. For example, sixteen Republicans signed formal minority views on May 18, 1981, stating:

> It is our belief that the serious deterioration of our defense industrial base threatens the ability of the United States to respond adequately to a military crisis. The extent of the malaise is becoming alarmingly apparent as we probe deeper into the situation * * *

In the lengthy hearings which followed, the pieces of the puzzle began to come together and the picture appearing was not encouraging.

General Alton D. Slay, who retired from the Air Force early this year after years of struggling to meet the needs of the armed services from an inadequate defense industrial base, put it bluntly in his testimony at the final hearing March 23:

> We are in the grip of a virulent industrial productivity disease which is sapping our strength and which, unless cured, will inevitably result in forfeiture of our position of leadership in the western world—leadership not only in an industrial sense, but militarily and politically as well.
>
> * * * I worry greatly about the defense aspects of an ailing industrial base. But I assert to you that those aspects cannot be considered separately from the problem as it relates to the economy.
>
> Mending our military fences just must be a top priority program of the Government. But that fence-mending today has to be done with a faltering industrial base and with a consequently faltering economy. And conversely, the prob-

lems of a faltering industrial base and a faltering economy must be dealt with while having simultaneously to devote huge sums to military fence-mending.

Widely regarded as one of the most knowledgeable experts on the U.S. industrial base, General Slay also expressed deep concern over the lag in productivity growth rates. He said:

> You know the figures—we've averaged less than about 1 percent growth for the past 20 years while Japan has averaged 8 percent and the Federal Republic of Germany about 5 percent. You also know that we've had negative growth rates in 1979, 1980, and 1981. And 1982 looks now like it may be another minus. In other words, we're less productive today than we were in 1978.
>
> Poor productivity and its handmaiden, poor quality, are costing every man, woman and child in the U.S. It's costing American industry dearly in profit and reputation, and it's costing the country dearly in jobs, standard of living, and in international trade.
>
> Take the auto industry, for example. Nissan, Toyota and Honda are producing high quality autos and trucks at a higher rate than our most efficient plants with an expenditure of labor that is only one-third that of competing U.S. auto companies—and, with only 10 percent of the investment in work in process inventory.
>
> Japan's auto exports topped $23 billion in 1980 and are growing at a phenomenal 37 percent per year. And I don't yet see the silver lining in the clouds over Detroit.
>
> Obviously a sick auto industry is bad for [the] economy—but consider the implications to defense. I can't think of an industry more important to defense than our auto industry—unless it's our electronic industry.
>
> And there's another black spot looming on the horizon. For instance, Japan already ranks second after the United States in production of computers—far ahead of anyone else. And Hitachi and others have plans to surge ahead of IBM. Both Hitachi and Nippon Electric offer computers with bigger memories and better performance than IBM's best, with better warranties, at a cheaper price. And Fujitsu has just announced two new ones which, they say, will outperform IBM's best. By 1985 Japan plans to sell some $1.66 billion worth of main frame computers in the United States.
>
> And in integrated circuits, some market experts assess Japan as already being ahead of the United States. Now, if you recall that in the mid-1970's, Japan didn't even compete in integrated circuit manufacturing, you get the full impact of the phenomenal growth that has occurred there in the last five years * * *.
>
> If current trends in consumer electronics continue, a lot of a very important segment of our consumer goods industry will dry up. And our defense electronics industry totally depends upon the existence of a healthy consumer electronics goods industry.

General Slay pointed to another key manufacturing field illustrating the problems facing industrial America. He said:

> In 1980, U.S. machine tool export trade reached an all-time high of $935 million—but our machine tool import trade also reached an all-time high of $1.55 billion—for a 1980 net trade deficit of $580 million; and although the final 1981 figures haven't been published, the import trend in 1982 is sharply up.
>
> Fifteen years ago, the United States had a net 5 to 1 advantage on exports versus imports of machine tools. In 1965, we imported less than 5 percent of our machine tools; today, we import over 30 percent.
>
> The U.S. world market percentage has been halved in the last ten years and shows signs of plummeting in the next two years.
>
> A large segment of our industry is under a concerted attack and is generally ill-equipped for the kind of competitive battle in the world market place that will be required to stay alive over the next several years. The implications for our economy and for our defense preparedness are enormous.

Since General Slay testified, there has been no visible improvement. The National Machine Tool Builders' Association reported on April 26 that machine tool orders for the first quarter of 1982 were 45 percent below the same period of the previous year. Yet the tax bill enacted by Congress last year was designed to channel investment into new plant and equipment.

James A. Gray, President of the Association, while expressing hope for the future, noted in the report that "the current decline in capital investment is particularly disturbing at a time when American industry is in great need of modernization and productivity improvement * * *." He said, "The decline in machine tool orders tends to erode our ability to respond to the industrial demands that lie ahead." Gray said the turndown in machine tool orders was "reason for grave concern."

Only a month before, the Department of Commerce reported that U.S. businesses plan to spend one percent less on new plant and equipment this year than in 1981 after adjustments for inflation. At the same time, the Department conceded the figure could even be lower when final tabulations are made.

These developments are hardly signs of good things to come in terms of modernization of U.S. industry in the near future.

H.R. 5540 seeks to remedy the existing malaise as it relates to small and medium-sized companies which make up the heart and muscle of the defense industrial base. The goal is modernization—making it possible for high-priority segments of this base to purchase and install new plant and equipment. The incentives used would be those contained in Title III of the Defense Production Act—loan guarantees, direct loans, price guarantees, and purchase agreements including advance payments.

The track record for the use of these incentives and other authorities in the Defense Production Act has been good. The DPA:

Doubled U.S. aluminum production;

Started the new commercial synthetic fuels industry;

Helped complete the Alaskan oil pipeline;

Launched the naval nuclear reactor program which led to the nuclear power industry;
Initiated U.S. nickel mining;
Created the titanium industry; and
Quadrupled U.S. tungsten production.

It could be argued the overall cost to the taxpayer has really been in terms of an investment. During its 30-year life, the Defense Production Act has generated nearly $9 billion in economic activity through more than a thousand industrial projects. The actual net outlay totaled approximately $900 million. However, this figure, which comes from the Federal Emergency Management Agency, does not reflect the Federal, State, and local tax revenues offsetting that cost, or more importantly, the hundreds of thousands of new jobs created.

Your committee believes this experience can be repeated.

Clearly, there is not enough money to help everybody. Therefore, this would be, in a sense, a competition. The Administration is currently developing a priority ranking of industries most important to defense, including the most problem-ridden in terms of capability and capacity.

The legislation requires a reassessment of priorities every six months of those industries which are necessary to the manufacture or supply of national defense materials required for national security, or are likely to be required in time of emergency or war.

Within those priority categories, Congress mandates special preference to those companies that come up with plans showing unusual promise in boosting productivity, improving quality, and reducing our reliance on foreign imports.

Successful modernization of the type described above can be translated into major savings in the defense budget, especially when such spending is at a record high. As it stands now, there is too much competition in the marketplace for scarce items. Other problems include delivery times that are too long, defective parts, rapidly increasing unit costs, and insufficient capacity in many industries. All these problems boost costs.

Air Force Lt. Gen. James W. Stansberry recently pointed to one dramatic example at the subcontractor level in the industrial base—an inability to supply such components as gears and brakes on a timely basis. As a result, the lead time for fighter planes has gone from two years to four. Stansberry said the savings to be gained, when efficient production is combined with multi-year contracting, are "staggering." On the F–16 fighter alone, he said, those savings would be more than $246 million by 1985.

H.R. 5540 calls for a modernization program designed to increase production, improve productivity, produce higher quality items with fewer rejects and decrease our current growing reliance on foreign imports. All of these actions logically would result in creating greater competition at lower costs in the defense industrial base, with a similar spinoff for items the same companies produce with the same equipment and skilled workers for the civilian economy.

Most available U.S. production equipment is 20 years old. The average West German plant is 12 years old. The majority of Japanese machine tools are less than 10 years old. This assessment, made in a

special report to the House Wednesday Group, October 14, 1981, by Dr. Jacques S. Gansler of the Analytic Sciences Corp., also noted that in the United States, "those few modern, efficient production units, such as the large forges and the multi-axis, numerically-controlled airframe assembly machines, are now in use on three shifts and cannot accommodate increased demands." Gansler said the United States has a smaller percentage of new equipment in its machine tool inventory than any western country.

Your committee is of the strong conviction that the United States cannot achieve projected defense production goals economically or efficiently without the type of industrial modernization envisioned within H.R. 5540.

THE NEED FOR SKILLED LABOR

Industrial modernization requires skilled labor and this legislation provides for a five-year training program to meet that pressing need.

The President would be directed to take "immediate action" to develop and implement a national program to train and retrain workers and upgrade skills needed for priority industrial modernization and the domestic production of critical and strategic materials. Such skills would have to be in current short supply or anticipated short supply.

Subcommittee Chairman James J. Blanchard of Michigan noted May 6 when he presented H.R. 5540 before the Committee the irony of skill shortages in our industrial base.

> Yes, these are the very job skills you see help wanted ads for in our daily newspapers. Unfortunately, there are not enough people trained in these skills to fill present or anticipated job vacancies.
>
> Over the next 5 years, these job skill needs are expected to run in the hundreds of thousands—machinists, computer technicians, tool and die makers, mechanics—the list goes on and on. These job skills all have civilian applications as well and are needed throughout our economy.
>
> These are jobs where there are existing and anticipated vacancies. Can you believe it? Jobs going begging at a time when we have in many areas the highest unemployment rates since the Great Depression.
>
> What we say in this bill is: "Let's start filling these jobs as quickly as we can."

By 1987, the Department of Defense projects a demand for more than 109 million workers in 73 different occupations, ranging from computer specialists to mechanics. More than 4 million of these jobs would result from defense-induced employment.

To face the future challenges of defense and civilian industrial production, the program outlined in H.R. 5540 is needed. A current shortage of skilled workers exists despite the current national 40-year high in unemployment. The shortage is documented in the Department of Labor's publication, "The Forecasting of Manpower Requirements." Some occupations listed were engineers, technicians, laboratory assistants, machinists, electricians, mechanics, machine repairmen, and office machine operators.

Further, the Department of Labor reports that we face a serious problem in meeting the demand for tool and die makers and machinists. Just to meet current requirements, the Labor Department estimates that nearly 9,000 tool and die makers and 22,000 new machinists will be needed each year through 1985. With the age of tool and die makers and machinists averaging 47 and 58 years, respectively, attrition will account for 19,000 of these annual openings. Yet, the number of new journeymen for both trades combined totals only 5,000 per year, according to the Department of Labor Bureau of Apprenticeship and Training.

In the computer sciences, demand is estimated at 20 to 40 percent greater than current supply, with the demand for computer specialists projected to be more than 547,000 by 1987.

The shortage is evident. With more than 9 million Americans currently unemployed, the matching of needed skills with workers in need of employable skills is necessary. This is the objective of the skills training program proposed in H.R. 5540.

By training workers in skills for needed jobs, by upgrading the skills possessed by workers to enable them to fill existing job openings, and by retraining workers in skills where there is a demand, the objective of H.R. 5540 can be accomplished.

Retraining is a vital component of the skills training program. Many industries are suffering from economic ills, thereby affecting the workers in those depressed industries. Retraining of workers in those industries is included in H.R. 5540. Also, retraining of workers in surplus labor areas is intended to focus the retraining efforts on high unemployment areas. Finally, workers whose skills have become obsolete because of technological advancement could be retrained under this program.

The Committee intends for all skills training under this legislation to train workers in those skills that will have long-term, viable usefulness for the worker.

H.R. 5540 provides an authorization of $250 million in grants annually over the next five years for job training on a cost-sharing basis with the states. For administrative reasons, the money would be funneled through state boards of vocational education or any other agency or agencies designated by that state's governor. Use of Federal funds for administrative expenses is limited to five percent.

How much a state receives depends upon three major factors—the number of priority industries located there, what the skill shortages are for those industries, and an acceptable state plan. Because all of these requirements are prospective in nature, depending on determinations made by the President, there is no set formula on distribution of funds. That should be wholly responsive to the needs of the defense industrial base, which the bill requires to be reassessed every 6 months to be kept current.

The state plan has a number of major requirements designed to bring about the widest possible participation of public and private resources in terms of people, materials, facilities, and services. A state plan must be developed with representatives from the management, workers, and unions of priority industries involved in training workers in the needed skills, or it will not be an acceptable state

plan. The Committee intends that there be a substantial contribution by the private sector and this should be reflected in the state plan submitted to the President.

The Committee also stresses its intent that any bona fide public or private program capable of training workers in the required skills shall be considered eligible to deliver the training services.

State cost-sharing, consisting of both public and private resources, including in-kind contributions, would begin with 10 percent of the cost of the state plan the first year and then rise an additional 10 percent each following year up to 50 percent in the fifth year.

Your Committee adopted a number of key amendments contained in a series of recommendations made jointly by the majority and minority staffs of the Banking Committee and the House Committee on Education and Labor, since H.R. 5540 was jointly referred by the Speaker to both committees.

These particular amendments require close coordination with existing Federal job training and apprenticeship programs to avoid duplication and waste. They also would make certain that similar basic job training protections for workers and employers now in existing law would apply in a similar fashion and where appropriate to trainees and employers involved in the Defense Production Act program. In addition, H.R. 5540 contains an anti-discrimination clause.

Your Committee's bill also contains language requiring that the state plan be designed to ensure meaningful opportunities for participation by minorities and women. These groups currently have unemployment rates above the national average for all workers. The fact that this is so despite anti-discrimination laws now on the books calls for special attention in the state plans to this continuing problem. In this connection, there is some concern that those industrial modernization efforts involving new skills offer training, retraining, and upgrading skill opportunities within the urban industrial areas where many minorities reside. Too often, training in some skills, such as those relating to computers, are offered outside urban industrial areas. With the increasing use of robotics and other advanced equip ment, this problem is worthy of new attention.

H.R. 5540 authorizes the President to provide assistance in coordinating state plans and to provide technical assistance and support services in skills training carried out under the Defense Production Act. Support services include planning, evaluation, national training conferences, and the use of existing information systems. Many of these support services could be provided by institutions such as the National Center for Research in Vocational Education at Ohio State University.

As Betty Vetter, Executive Director of the Scientific Manpower Commission, so aply stated before the subcommittee on July 24, 1981,

> Any significant revitalization of U.S. industry will require not only money to retool; it will require technologically trained manpower to design, manufacture, install, and maintain new machinery and equipment; to carry out the basic research which is the basis for new innovation; and the targeted research which builds on basic research for specialized applications.

CRITICAL AND STRATEGIC MATERIALS EXPANSION

A further major objective of H.R. 5540 is to expand the domestic capability and capacity of this nation to produce and process strategic and critical minerals, metals, and materials.

An industrial society cannot function, let alone maintain a world leadership position, without an adequate, uninterrupted supply of critical materials. Despite the wealth of U.S. domestic minerals resources, the Nation continues to rely on imports to a very significant extent. The United States is currently more than 50 percent dependent on foreign sources for 23 of the 40 critical and strategic materials used in the defense industry as well as in industry as a whole.

This foreign dependence prompts serious concerns. One is the political instability of some of the major suppliers of a number of the most critical materials. Internal conflicts as well as military conflicts with neighboring countries can cause sudden supply disruptions, triggering worldwide inflation, industrial delivery delays, and shortages. Such was the case in 1978 when an invasion of the cobalt mining areas of the Shaba Province in Zaire resulted in a curtailment of mineral output and a rationing of the available cobalt supply. During this period, the producer price increased from $5 to $25 per pound.

The U.S. imports 76 percent of its cobalt from Zaire and Zambia, who together produce over 60 percent of the world's supply. Cobalt is essential to the defense industrial base for its many applications, most attractive of which is its ability to withstand high temperatures. There is currently no cobalt production in the United States; therefore, the political stability of the African nations is of vital importance to the United States.

Another concern with our foreign dependence is that some of our sources for critical minerals are nations not aligned with the West, most notably the Soviet Union. The United States imports chromium, platinum-group metals, and gold from the Soviet Union.

By an accident of geology, two of the most critical materials for an industrial society—chromium, which is used as an alloy to increase hardness and impact strength in steel as well as increase its versatility; and the platinum-group metals (including palladium, rhodium, iridium, ruthenium, and osmium), which are used as corrosion resistant materials and as catalysts in the automotive and chemical industries and in petroleum refining—are concentrated in two areas of the world, southern Africa and the Soviet Union.

The political uncertainties in a changing world raise another concern. Is the United States mineral posture one of dependence, or is this country vulnerable? The elements of vulnerability include a sufficiently critical need for materials by the Nation's industry such that a prolonged supply interruption would result in catastrophic economic and military consequences; a lack of adequate domestic resources; limited potential for employment of suitable substitutes; and lack of adequate alternative sources of supply. Most experts would agree that a materials import vulnerability exists for the following: bauxite (aluminum), chromium, cobalt, columbium, manganese, the platinum-group metals, tantalum, and titanium.

The concern over dependency and vulnerability is not a new one. In 1939, with the impending threat of war in Europe, the Strategic

Materials Act was passed to determine which materials were strategic and critical, resulting in a list of 39 materials. The Act was amended in 1946 by the Strategic and Critical Materials Stock Piling Act. The purpose was to assure preparedness in case of another emergency by developing domestic sources of supply where possible and by creating stockpiles of materials not in sufficient domestic supply.

The Strategic and Critical Materials Stock Piling Revision Act of 1979 revised and updated the previous legislation and strengthened the legislative role in stockpile matters. The Act provides that stocks of strategic and critical materials be held in order to decrease dependence upon foreign sources of supply in times of emergency.

Of the 61 family groups and individual materials in the stockpile, 37 fall below the established goal. Eight of the nine materials comprising the group of materials representing potential vulnerability fall short of stockpile goals.

Expanding domestic production and processing is a step toward decreasing this nation's mineral dependence and potential vulnerability. As Subcommittee Chairman James J. Blanchard stated on May 6 during consideration of H.R. 5540 before the Banking Committee, "The goal here is not total self-sufficiency but certainly a greater measure of independence from possible shortages, cutoffs, cartel-like arrangements and unreasonable price demands."

A purpose of H.R. 5540 is to encourage domestic production and stimulate new industries, and the Defense Production Act has been effective in doing just that. Through the use of the borrowing authority during the Korean conflict and the mid-1950s, Title III was an effective tool for increasing domestic capabilities and thereby reducing stockpiling requirements and saving millions of dollars for the taxpayers. Thousands of transactions were carried out, resulting in the establishment of billions of dollars worth of new industry.

The Committee expects all new mining operations assisted by this Act to be conducted in an environmentally sound manner and in strict compliance with all Federal, State and local laws, regulations, and permitting requirements.

Inclusion of materials processing is an important facet of the materials expansion program. At the Subcommittee's September 17, 1981, hearing, Simon Strauss, then Chairman of the Minerals Availability Committee of the American Mining Congress, stated:

> It is in great trouble and we are sending some of our processing overseas * * *. Many plants were old and approaching obsolescence * * *. The zinc industry is perhaps the outstanding example where over two-thirds of the domestic zinc smelters have closed down in the last 12 years. A similar fate has befallen the ferromanganese and ferrochrome producers.
>
> Last year the large copper-smelting processing complex in Montana was in a shutdown. The mines continue to operate, but the material is being shipped to Japan for processing * * *.

By exporting processing, or capability and capacity to meet the needs of a revitalized industrial base is weakened and required industries and greatly needed jobs are being exported.

H.R. 5540 provides financial incentives to maintain and reopen the domestic processing capability of this country.

This legislation also recognizes that the expansion of domestic capability and capacity to produce and process materials is not limited to mining. Not only does this Nation contain a finite supply of resources, but in some cases, such as columbium and manganese, there are no domestic reserves, i.e., portions of a resource that can be economically and legally extracted. What this Nation does possess is the ingenuity and innovation to develop alternatives.

Dr. John B. Wachtman, Jr., Director of the Center for Materials Science at the National Bureau of Standards, states, "There are many advanced materials technologies now under active development * * * and many new materials are being developed."

Dr. Wachtman cited a list compiled by Howard Mechlin of Westinghouse Electric called "Synterials," materials being developed to decrease dependence on critical materials through advanced technologies. The list includes reinforced plastics, amorphous metals, super conducting alloys, surface modified materials, electrically active ceramics, high temperature ceramics, advanced glasses, and solid state materials. Dr. Watchman would add advanced modified alloys, rapidly solidified alloys, composite materials, advanced polymer technology, high performance ceramics, and glass ceramics to the "Synterials" list.

In addition to materials innovations, there are also activities underway to improve materials performance and to conserve materials through design and processing changes.

Technology is a key in reducing our materials dependence. However, technically innovative companies are often viewed as high risk and financing is not readily available.

Dr. Michael Markels, Jr., President of Versar Inc., a metal-matrix composite company, states that

> * * * the metal-matrix composite industry holds the greatest promise for providing successful substitutes for critical materials. Small businesses have provided the advancements which have established this technology as a new source of domestic materials with enhanced properties..

Research and development funds for innovative industries have been reduced and many small businesses do not have the necessary financial and human resources to continue unaided.

H.R. 5540 provides financial assistance for these innovative industries to continue their invaluable advancements and contributions to our national security and to foster new industries as well.

A further emphasis of H.R. 5540 is conservation, not only through improved design and production process changes, but through improved recovery techniques and recycling. Recovery of materials for reuse is essential in light of the fact that mineral resources are exhaustible.

An emphasis on recycling can aid in creating a closed-cycle of some materials use so as to eliminate waste and conserve materials for future use.

All of the aforementioned conservation alternatives are technically feasible, according to Hope Babcock, Deputy Counsel and Director of Public Lands and Public Waters for the National Audubon Society.

Some have been proven to be economically viable as well. For example, the Pittsburgh Pacific Processing Company recycles the residue of stainless steel processing. Techniques and materials that reduce the amount of manganese needed to manufacture construction grade steels are used in construction of pipelines for Alaskan resources.

Chairman Blanchard stressed the importance of these alternatives for materials expansion before the Banking Committee, stating:

> Wisely, I think, from an environmental and energy-saving viewpoint, the subcommittee considered the contribution that conservation, substitution, and recycling can make to this effort and we want some serious attention given to these activities.

MODERN EQUIPMENT TO TRAIN PROFESSIONALS

A further objective of H.R. 5540 is to help universities, colleges, and institutions of higher education by updating equipment that would be used in the training of scientific, technical, and professional personnel who are needed in the priority industries listed for modernization and in the materials expansion program.

With the advances in science and high technology and the growing international competition in these areas, the existing high demand for qualified scientific and technically trained workers is growing.

The Department of Defense projects a demand for more than 1.25 million engineers by 1987, and the Bureau of Labor Statistics foresees an annual average of 93,000 job openings for engineers through 1990. During this same time frame, the Bureau would approximate an average annual supply of engineers at 77,000, leaving an annual shortfall of 16,000.

The educational institutions of this nation face a formidable challenge in educating and preparing students for the rapidly changing society in which we live.

Are colleges, universities, and institutions of this nation currently equipped to meet this challenge? The answer is doubtful.

Several problems plague our institutions of higher education. One is the retention of qualified faculty. In the high-technology and science fields, the competition from industry for knowledgeable, experienced personnel is fierce. With the offer of higher salaries and better equipment, the "brain drain" is increasing. Baccalaureate students are choosing to pursue careers more often than advanced degrees, limiting the number of persons holding masters or Ph. D. degrees.

Equipment is another problem. A growing gap exists in both quality and quantity between instructional equipment and industrial equipment.

In testimony before the subcommittee on July 24, 1981, Betty Vetter, Executive Director of the Scientific Manpower Commission, stated:

> * * * Equipment and instrumentation in science and engineering laboratories is both old and in short supply. Computer science department heads estimated in 1980 that a total capital investment of $79.2 million is needed now, and a 50 percent increase in the number of Ph.D. students would increase the required investment to about $95 million in computer science departments alone.

> Another study found that the average age of U.S. engineering laboratory equipment now exceeds 14 years * * *.
>
> Funding must be found to upgrade university equipment, both for research and teaching.

To educate people properly for the jobs of tomorrow and to remain globally competitive in science and technology, requires the most modern equipment and instrumentation in our institutions of higher education.

According to Dean John C. Hancock of the School of Engineering at Purdue University, equipment is usually the last priority for funding because salaries for faculty need to be increased in an attempt to keep pace with industry. The average life of laboratory equipment used 7 days a week, 12 hours per day, is 4 years, and this figure does not account for obsolescence.

By updating equipment, not only would our institutions be providing quality education and training to students, but the improved facilities and working conditions would provide an incentive for faculty to remain in academia and encourage students to pursue higher degrees in a quality environment.

Colleges, universities and other institutions of higher education would be required to submit an application for a grant for the cost of the purchase and installation of equipment. In some cases, the applicant could be required to provide a matching share of up to 50 percent of the cost of the purchase and installation of the equipment. Otherwise, the Federal Government would fund 100 percent of the cost.

The importance of the funding provision was highlighted by Representative Stanley N. Lundine of New York, who stated that without the flexibility of this provision

> * * * most of the instrumentation will go to the wealthier universities. They would be able to afford the match but maybe others will not.
>
> I would also point out, for flexibility, that the instrumentation varies from discipline to discipline. It might not take much for biology equipment, but it may take a great deal for physics. So we should allow for some variance in this.

The Committee intends that those colleges, universities, and institutions of higher education unable to provide part of the cost of acquiring equipment be given consideration equal to those applicants capable of providing all or a portion of a matching amount, taking into consideration the objective of the legislation.

In designating an agency to carry out the objectives of this program, the Committee notes that the National Science Foundation has experience in administering similar programs, and the experience and expertise available in that agency may be a valuable tool in implementing this program. However, this program in no way is intended to replace existing equipment and instrumentation programs. This is a new effort, a necessary link in the broader initiative of revitalizing the industrial base.

Further, the Committee intends that any equipment purchased with funds provided under this program be accessible to all students and faculty studying, teaching, or doing research at the institution, according to the institution's regulations or practices. However, the college, university, or institution of higher education may set priori-

ties for the use of equipment in conjunction with the training for which the equipment was purchased.

OTHER PROVISIONS

The legislation also updates some standard provisions of the Defense Production Act of 1950.

The Declaration of Policy has been rewritten to incorporate the thrust of major amendments contained in H.R. 5540 to modernize the defense industrial base. The key premise is that the United States should be at a level of industrial preparedness so we can deal with emergencies as they arise and not always after the fact, or in a "catch-up" sense. No existing language in the Declaration of Policy was deleted.

Statements relating to diversion of certain materials and facilities from civilian use to military and related purposes and language relating to the encouragement of geographical dispersal of industrial facilities have been in the Act for 30 years and represent nothing new in Congressional policy. These provisions come into play principally in times of emergency or war.

H.R. 5540 also seeks to reverse the current stance in the law favoring direct loans over loan guarantees. Thus, the present $38 million "trigger" mark when proposed loan guarantees must be sent to Congress was raised to $50 million, reflecting also the need to take cognizance of the effect of inflation on the economy. The direct loan "trigger" mark remains unchanged at $48 million. The review period when such proposals must remain before Congress was shortened from 60 days to 30 days. A provision permitting expedited action through a concurrent resolution also was incorporated. These changes reflect concerns that Congressional action must be permitted to go forward quickly in those instances where it is justified. The costs of delay can be serious in their effect on the defense industrial base and uneconomical as well.

H.R. 5540 also contains language from an amendment offered by Representative Bruce F. Vento of Minnesota which authorizes the Department of the Treasury to develop a data base on offsets in foreign military sales. Offsets are nonmonetary, compensatory arrangements often included in transactions between defense contractors and foreign governments. Offsets may include, but are not limited to, the transfer of production or technology as a consideration for the purchase of a particular item or service.

The Subcommittee on Economic Stabilization held a hearing on offsets and foreign sourcing on September 24, 1981. Testimony was received that offset demands are increasing, and witnesses raised concerns that offsets may be adversely affecting our defense industrial base by forcing U.S. prime contractors to give preferential treatment to foreign subcontractors and suppliers as a condition for making sales. Clearly, offsets do appear antithetical to the objective of the Defense Production Act which is the enhancement of the U.S. defense industrial base.

Neither the Department of Defense nor the Department of the Treasury has been able to provide the Committee with data on the size or scope of offset use. Nor could either Department provide information regarding how much of our defense production is conducted

in foreign countries. The Committee, in an effort to determine if offsets are harming American defense subcontractors and suppliers, has directed in H.R. 5540 that defense contractors making sales which involve offset packages in excess of $5 million file an annual report with the Secretary of the Treasury. To protect business confidentiality, the Committee stipulated that defense contractors should disclose in their annual reports the total of all offsets, classified by the category of defense article or defense service involved, that they have entered into in the three past calendar years. The contractors annual reports shall be filed each June 1 beginning in 1983 and ending in 1987.

The Secretary of the Treasury is also directed to file an annual report with the Banking Committees of the House and Senate each October 1, beginning in 1983. This report shall show the offset totals, classified by category of defense articles or defense services and recipient country, entered into by all U.S. contractors during the three previous calendar years. Such report shall in effect comprise a summation of all annual reports filed by defense contractors.

H.R. 5540 also calls for periodic studies to be made by the Office of Technology Assessment of public facilities or infrastructure essential to the defense industrial base.

The Committee recognizes public infrastructure and especially transportation facilities as integral parts of the nation's defense industrial base. With necessary manpower, resources and small industries in place, the goals of this act still will be frustrated unless resources and finished products can be moved speedily and efficiently.

Industries already suffer costly delays as trucks detour around unsafe bridges. One of every five U.S. bridges needs major renovation or reconstruction. The Interstate Highway System, though not yet completed, needs over $700 billion in repairs in the 1980s; the damaged surface currently exacts high costs in vehicle repairs.

Locks and dams along major stretches of waterways are so outmoded and deteriorated that barge backups are commonplace, delaying the delivery of such vital materials as coal and oil for energy production. Inadequate docking and loading facilities at ports force seagoing vessels to queue up as long as a month, suggesting what could happen if bulk military supplies had to be shipped rapidly to troops or allies abroad.

These examples support the Committee's call for a comprehensive assessment of infrastructure needs—and recommendations for dealing with them—as part of the job of attaining defense readiness. The Office of Technology Assessment has the capability to provide the analysis for this purpose.

H.R. 5540 contains an unusually strong "Buy-American" provision. All equipment and plant financed through Federal assistance for the entire modernization, training, and materials expansion effort under this bill must be of U.S. origin. No exception can be made without the written approval of the Secretary of Commerce determining that any item is not available and not practicable to obtain in the United States.

FUNDING PROVISIONS

H.R. 5540 authorizes $1.35 billion annually for the next five years, beginning with fiscal 1983, for programs to modernize the defense

industrial base, train workers in high priority skills, increase the domestic production of critical and strategic materials and provide equipment to train professional, scientific, and technical personnel.

The five-year authorization would total $6.75 billion. Of that amount, $5 billion would be earmarked in credit assistance, price guarantees. and purchase agreements for industrial modernization and critical and strategic materials; $1.2 billion in cost-sharing grants for skills training; and $500 million in grants, some cost sharing, for higher education training equipment.

In the use of loan guarantees, price guarantees, and direct loans, the President may utilize the borrowing authority of the Treasury to leverage the sums set aside for industrial modernization and critical and strategic materials. However, the President is limited in this authority to the extent the estimated ultimate net cost does not exceed appropriations. The estimates shall be based upon the past experience of the actual costs of Federal financial incentives and related expenses under the Defense Production Act. All authorities and amounts are subject to appropriations provided in advance.

CONCLUSION

The Committee asks the House of Representatives to approve H.R. 5540 and thus launch a series of actions by our Government and the private sector which should have the following beneficial results:

1. The modernization and strengthening of the defense industrial base, which is also the backbone of America's civilian manufacturing sector;
2. New employment in skills vitally needed for our national security and which also have wide application in peaceful pursuits;
3. A significant reduction in the outflow of U.S. dollars for foreign imports which is currently contributing to inflation, the weakening of our currency in world trade, and high interest rates;
4. Lower costs for defense in terms of greater domestic availability, improved productivity and quality, and competition;
5. The needed perception by industry and the financial community of a real market which is so necessary to spur investment in new plant, equipment, and jobs.

Statements Made in Accordance With House Rules

In accordance with clauses 2(1)(2)(B), 2(1)(3) and 2(1)(4) of rule XI of the Rules of the House of Representatives, the following statements are made.

Committee Vote (Rule XI, Clause 2(1)(2)(B)

The bill, H.R. 5540, was ordered reported favorably by a voice vote.

Oversight Findings and Recommendations (Rule XI, Clauses 2(1)(3)(A) and (D), and Rule X, Clauses 2(b)(1) and (2) and 4(c)(2)

The extensive hearings conducted by the Subcommittee on Economic Stabilization and the Committee's findings and recommenda-

tions resulting from those hearings are contained, and described in detail, in the "Legislative History" and the "Need For and Purpose Of The Legislation" portions of this report. The Committee finds that this legislation is needed to continue the authorities of the Defense Production Act and shore up the nation's defense industrial base.

FINDINGS AND RECOMMENDATIONS OF THE COMMITTEE ON GOVERNMENT OPERATIONS, RULE XI, CLAUSE 2(D) AND RULE X, CLAUSE (4)(c)(2)

The Committee has received no findings or recommendations from the Committee on Government Operations.

COST ESTIMATE OF THE CONGRESSIONAL BUDGET OFFICE PURSUANT TO SECTION 402 OF THE CONGRESSIONAL BUDGET ACT OF 1974 (RULE XI, CLAUSE 2(1)(3)(C))

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, D.C., May 14, 1982.

Hon. FERNAND J. ST GERMAIN,
Chairman, Committee on Banking, Finance and Urban Affairs, Washington, D.C.

DEAR MR. CHAIRMAN: Pursuant to Section 403 of the Congressional Budget Office has prepared the attached cost estimate for H.R. 5540, the Defense Industrial Base Revitalization Act as ordered reported by the Committee on Banking, Finance and Urban Affairs on May 6, 1982.

Should the Committee so desire, we would be pleased to provide further details on this estimate.

Sincerely,

JAMES BLUM
(For Alice M. Rivlin, Director).

CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

MAY 14, 1982.

1. Bill number: H.R. 5540.
2. Bil title: Defense Industrial Base Revitalization Act.
3. Bill status: As ordered reported by the Committee on Banking, Finance and Urban Affairs on May 6, 1982.
4. Bill purpose: The bill amends Titles III and VII (in part) of the Defense Production Act of 1950 by adding a new section 303A and by changing the expiration date to September 30, 1987. The amended act authorizes the following:

Financial assistance in the form of direct loans, loan guarantees, purchase agreements or price guarantees to small- and medium-sized businesses to be used for the modernization of domestic industries necessary for national defense, or the expansion of domestic capability and capacity to produce or process strategic minerals, metals and materials;

Establishment of a five-year national program in cooperation with the States to train workers necessary for the industries important to national defense;

Provision of grant assistance to institutions of higher learning for obtaining and installing modern equipment for training personnel needed in the priority industries and in the strategic materials expansion program;

Industrial defense mobilization activities of the Department of Commerce;

Certain emergency preparedness functions funded in the Federal Emergency Management Agency;

The payment of interest on (1) disbursements incident to the expansion of production capacity and supply of strategic materials, and (2) the current market value of inventory of materials procured under Section 303 of the Defense Production Act. This is funded within the General Services Administration under the Federal Property Resources Service account.

5. Cost estimate: If activity under the Defense Production Act were to continue at levels consistent with the President's request for fiscal year 1983, the cost of the five year extension would be approximately $6 million in estimated authorization and outlays over the 5-year span.

However, the addition of Section 303A under the Defense Industrial Base Revitalization Act would expand the authorization levels by $6.75 billion and estimated outlays by approximately $3.4 billion over the five-year interval, though the outlay cost will depend on how the President chooses to use the authority given to him in the bill.

[By fiscal year, in millions of dollars]

	1983	1984	1985	1986	1987
Extension of termination date to September 30, 1987:					
Budget function 370:					
Estimated authorizations	1	1	1	1	1
Estimated outlays	1	1	1	1	1
Budget function 050:					
Estimated authorizations	(1)	(1)	(1)	(1)	(1)
Estimated outlays	(1)	(1)	(1)	(1)	(1)
Provisions under new section 303A:					
Budget function 050:					
Industrial modernization (subsection 2(g)) loan guarantees:					
Estimated authorizations	500	500	500	500	500
Estimated outlays	5	73	229	324	362
Purchase price guarantees:					
Estimated authorizations	500	500	500	500	500
Estimated outlays	8	110	150	190	230
State training grants (subsection 2(h)):					
Authorization level	250	250	250	250	250
Estimated outlays	115	313	250	250	250
College equipment (subsection 2(i)):					
Authorization level	100	100	100	100	100
Estimated outlays	50	130	100	100	100
Total:					
Authorizations	1,351	1,351	1,351	1,351	1,351
Estimated outlays	189	627	730	865	943

[1] Amount less than 500,000.

The addition of Section 303A also affects the creidt budget. Under the assumptions used to generate cost estimates for Section 303A, the total impact on the credit budget will be $11.3 billion in new loan guarantee commitments over the 5-year life of the bill. These assumptions are detailed in the following section.

Credit budget impact

[In millions of dollars]

New loan guarantee commitments:	
Fiscal year:	
1983	$2,250
1984	2,250
1985	2,250
1986	2,250
1987	2,250

6. Basis for estimate: Except where indicated, the authorization amounts are those stated in the bill. It is assumed that the full amount will be appropriated before each fiscal year.

The estimate for the cost of extending the existing provisions under the Defense Production Act is based on the Administration's plans for 1983. These would require a little over $1 million for the Department of Commerce mobilization activities and approximately $0.2 million for activities carried out by the Federal Emergency Management Agency. The 5-year estimate assumes a constant real level of activities with budget amounts adjusted to include CBO inflation assumptions.

The major cost of this bill is associated with implementation of Section 303A, that directs the President to expand and solidify the national defense industrial base. Three subsections (2(g, 2(h) and 2(i)) authorize appropriations; outlays are estimated using several key assumptions.

The estimate for subsection 2(g), assumes that one-half of authorized funds will be used for loan guarantees, and one-half for purchase contracts with prices guaranteed in the contract to small and medium-sized businesses for industrial modernization and strategic mineral capacity expansion. The outlays calculated under the loan guarantee portion of the program are based on the experience of the Small Business Administration (SBA). The present average default rate on SBA guaranteed loans is 21.8 percent over the life of the loans. Given this default rate, the maximum amount of loans that could be guaranteed over the 5-year span covered by the Act so that total outlays would not exceed the estimated amount authorized for payment of defaulted loans would be approximately $11.3 billion. New loan guarantee commitments would equal almost $2.3 billion in each fiscal year 1983 through 1987. This implies a leveraging ratio for the $500 million per year of 4.5 to 1. Each year's outlays are estimated employing SBA experience of the timing of loan defaults, including a 30 percent ultimate recovery of repurchased loans.

In each year, $500 million has been assumed will be authorized for purchase contracts and price guarantees under the Act. Costs of these financial incentive instruments are more difficult to estimate in that they will depend on what is produced, what is purchased, and the amount that the guaranteed price exceeds the prevailing market price. The estimate assumes that purchase contracts will be calculated or specified in such a way as to prohibit expenditure of more than the $500 million per year when plants are producing up to capacity. As technological risks in industries providing basic materials for defense are relatively small, and manufacturers of these materials guaranteed under the act are not expected to have significantly different cost experiences from other manufacturers, it has been assumed that there will

be no costs associated with the price guarantees provided for in the Act. The cost of the purchase contracts thus is phased in slowly over the five years as products become available for purchase. Also included in the estimate are approximations for administrative costs based on the costs of administering similar programs.

Outlays of the worker training authorized under subsection 2(h) have been estimated based on experiences of the Manpower Development and Training Act and the Comprehensive Employment and Training Act (CETA). The first-year estimated outlays are assumed to be somewhat lower than outlay patterns of either of the above acts because of the stipulation under Subsection 2(h) requiring extensive States' participation in the program. Outlays estimated for the first year are 50 percent of total authorizations which is also consistent with the CBO's estimates for several CETA programs being transferred to the States in fiscal year 1983.

Finally, outlays associated with Subsection 2(i) are estimated assuming a slow first-year spendout of authorized funds. This slow rate is typical of new programs. The spendout rate for funds authorized under this subsection is assumed to level off at a higher constant rate after the first year.

7. Estimate comparison: None.

8. Previous CBO estimate: Estimate of May 14, 1982 for H.R. 5540 as ordered reported by the Committee on Education and Labor, on May 11, 1982.

The estimates are identical because differences in the bills' language have no cost impact.

9. Estimate prepared by: Barbara M. Hollinshead and Michael A. Miller.

10. Estimate approved by:

C. G. Nuckols
(For James L. Blum,
Assistant Director for Budget Analysis).

Inflation Impact Statement (Rule XI, Clause 2(1)(4))

There should be no inflationary impact of this legislation from its direct effect on budget outlays and the deficit. Based on the past experience of financial incentives used under the Defense Production Act, benefits in terms of economic activity, employment, and increased Federal, state, and local tax revenues far exceeded Federal funds actually spent. That ratio is at least 9 to 1 on the side of benefits.

If the legislation is implemented according to the full extent of its congressional mandate, industrial modernization should strengthen the subcontractor and supplier base, encouraging a strong competition among domestic firms for defense business and, indeed, in many civilian markets. Increases in production and worker productivity should dampen costs.

Improved quality and the reduction in reject parts also should bring cost savings. Less reliance on foreign imports will reduce the dollar outflow overseas, improve the Nation's trade balance and balance of payments with corresponding favorable effects on the exchange rate of the dollar. All credit assistance and grants under H.R. 5540 will be used and invested in high-priority national security objectives and will be wealth-creating in economic character because of their dual

application to the civilian economy as well as the defense industrial base. Industrial capability and capacity are both strengthened to meet the needs of the projected defense buildup and any economic recovery.

Section-by-Section Summary of H.R. 5540

Section 1 states the title of the bill to be the "Defense Industrial Base Revitalization Act."

Section 2 amends Title III of the Defense Production Act of 1950 by adding a new section 303A.

Subsection (a) specifies the purpose of new section 303A to be the strengthening of domestic capability and capacity of the nation's defense industrial base.

INDUSTRIAL MODERNIZATION

Subsection (b) directs the President to act immediately to provide financial assistance for the modernization of United States industries which are necessary, or may be necessary in the event of emergency or war, to the manufacture or supply of national defense materials. Such assistance shall be in the form of loan guarantees, direct loans, purchase agreements, or price guarantees. The subsection limits such assistance to small and medium-sized businesses as defined by the Department of Commerce. Larger entities may receive assistance only if the President formally notifies Congress that the national interest requires such an exception to the limitation.

Subsection (c) directs the Secretary of Defense, in consultation with the Secretary of Commerce, to specify immediately which industries should be given priority for financial assistance, and to update the list of priority industries every six months. In addition, the Secretary of Defense is required, in consultation with the Secretary of Commerce, to specify the type and extent of financial assistance for each priority industry, and to indicate which businesses within the priority industries should be given preference because their modernization proposals offer the greatest prospects for productivity and quality improvement, and for a reduction in import reliance for materials.

STRATEGIC AND CRITICAL MATERIALS EXPANSION

Subsection (d) directs the President to provide financial assistance in the form of loan guarantees, loans, purchase agreements or price guarantees, for the expansion of the domestic capability and capacity to produce or process strategic minerals, metals, and materials.

In addition to existing production and processing techniques, this expansion is to include methods and techniques for conservation and recycling of, and substitution for, strategic minerals, metals, and materials as well as processes which will lead to a lessening or elimination of the need for traditional forms of strategic minerals, metals, and materials.

This subsection requires that the Secretaries of Defense, Commerce, and Interior, and the Director of the Federal Emergency Management Agency, be consulted in carrying out the strategic minerals, metals, and materials expansion program.

Subsection (e) requires that financial assistance for the defense industrial base priority industries program of subsection (b) and the strategic and critical minerals, metals, and materials program of subsection (d) be provided on the basis of proposals submitted in response to public solicitations. The first such solicitation must be issued within 90 days of the enactment of new section 303A.

Subsection (f) establishes the price guarantee financial assistance mechanism available under subsections (b) and (d) in connection with purchase agreements. It requires that purchase agreements must include the Government's right to refuse delivery of the materials ordered, and if the market price of the materials, as determined by the Secretary of Commerce, is lower than the contract price, the Government must pay the price difference.

Subsection (f) also prohibits financial assistance under subsections (b) and (d) to aid establishments in relocating from one area to another. Establishments may expand facilities provided that such expansion will not increase unemployment in the area of original location and will not result in the closing of any existing operations. Further, no financial assistance may be extended to assist persons in taking away contracts from those persons who customarily perform them.

Subsection (g) authorizes the appropriation of $1 billion per year for each of fiscal years 1983, 1984, 1985, 1986, and 1987, with appropriated funds to remain available until expended, for carrying out the priority industries and strategic minerals, metals, and materials expansion programs of section 303A. This subsection also authorizes contingent liability financial incentives (loans, loan guarantees, and price guarantees) to be leveraged through use of Treasury borrowing authority, and based on estimated ultimate net costs of contracts to the Government. The estimated ultimate net costs may not exceed amounts appropriated by Congress. Ultimate net costs are to be estimated on the basis of experience of actual costs of these forms of financial incentives which have been utilized under the Defense Production Act. The use of contingent liability financial incentives and the Treasury borrowing authority are limited to the extent and amounts provided in advance in appropriation acts.

SKILLS TRAINING

Subsection (h) directs the President to establish and implement a 5-year national program to train workers in skills which are necessary in the priority industries identified in subsection (b) and (c) and in the strategic and critical minerals, metals, and materials expansion program of subsection (d), and for which skills there is, or is anticipated to be, a shortage. He may provide technical and coordinating assistance and support services to meet the objectives of this subsection.

Financial assistance for the program is in the form of annual grants, provided on a shared cost basis to State boards of vocational education or other agency or agencies designated by the Governor. A grant may be extended to the board of vocational education or the designated administrator only after the State involved has submitted a 5-year plan, certified by the Governor of the State and approved by the President, for carrying out a skills training program. In addition, in each year of the plan, the State is required to provide a share of the cost for that year, on the following schedule: In the first year,

10 percent of that year's cost, with 90 percent provided by the Government; in the second year, 20 percent from the State, 80 percent from the Government; in the third year, 30 percent from the State, 70 percent from the Government; in the fourth year, 40 percent from the State, 60 percent from the Government; and in the fifth year, 50 percent each from the State and the Government. The State's share may come from public or private sources, and may include "in kind" contributions of equipment, facilities, personnel, or services. Not more than 50 percent of the funds provided by the Government may be used for the administrative expenses of this program. Discrimination on the basis of race, color, religion, sex, national origin, age, handicap, or political affiliation or belief is prohibited in the program.

Subsection (h)(3) sets forth requirements for the President's approval of a State's skills training plan: That it be developed with workers and management of priority industries and with the State's public and private educational institutions; that it include meaningful opportunities for participation by minorities and women; that it include in addition to skills training, upgrading skills of already trained workers, and retraining in the necessary skills of workers in industries which are depressed, workers in areas with surplus labor, and workers whose skills might become obsolete; and that it include programs of training in workplaces, registered apprenticeship programs, and other bona fide public or private training programs in the state.

Subsection (h)(3) also requires coordination of the skills training program with any CETA or successor program through provisions for participation in the plan's development by the State employment and training council or a successor entity, and opportunity for prior review and subsequent comment by that entity. To maximize effective coordination, additional requirements of the plan prohibit duplication of other Federal, State or local programs unless necessary to achieve the objectives of the skills training program, make provision for joint agreements with CETA (or successor) programs, and require consultation and coordination with certified apprenticeship plans where they are in effect.

The State plan must also certify that certain labor training standards and protections are met. Appropriate conditions of training, health and safety standards, and workers' compensation or equivalent protection are required. Protection against currently employed or laid-off worker displacement, impairment of employment contracts, or requirement of union membership where a collective-bargaining agreement with a union security provision is not in effect must be provided. The plan must also certify that funds for the skills training program will not be used either to aid or deter union organizing.

The subsection requires that the President take action on a State plan, based on recommendations of the Secretaries of Defense, Labor, and Education, within 90 days of receipt of the plan.

The subsection permits the Federal grant assistance to be used for purchase and installation of equipment for training purposes but requires that such equipment be purchased through competitive bids. Authority to install Government-owned equipment in private "industrial facilities" contained in section 303(e) of the Defense Production Act is extended to vocational schools, other schools offering technical

and vocational training, and other worker training locations which are used in the program.

Funds authorized to be appropriated to carry out the subsection (h) skills training program are $250,000,000 in each of fiscal years 1983 through 1987, and are authorized to remain available until expended.

HIGHER EDUCATION EQUIPMENT MODERNIZATION

Subsection (i) directs the president to begin immediately to develop and implement a program of grants to institutions of higher education for obtaining and installing modern equipment for training professional, scientific, and technical personnel needed in the priority industries identified under subsections (b) and (c), and in the strategic and critical minerals, metals, and materials expansion program of subsection (d). Grantees may be required to pay part, up to 50 percent, of the cost of equipment purchase and installation. A grant is to be awarded on the basis of an application submitted by the institution of higher education which certifies the cost of the purchase and installation of the equipment. Such equipment must be purchased by competitive bid and must be accessible to all students and faculty at the institution in accordance with the institution's regulations and practices. Section 303(e) Defense Production Act authority to install Government-owned equipment in private facilities is extended to include colleges, universities, and other institutions of higher education.

Funds authorized to be appropriated for the subsection (i) program are $100 million in each of fiscal years 1983 through 1987, and are to remain available until expended.

MISCELLANEOUS PROVISIONS

Subsection (j) requires that equipment or plant financed through any of the programs of Section 303A must be of United States origin. The only exception to this requirement is when the Secretary of Commerce determines, in writing, that the U.S.-origin plant or equipment is unavailable and not practicable to obtain.

Subsection (k) requires the Comptroller General of the United States to monitor and audit the programs of Section 303A and to report his findings to the Congress each year at the beginning of a session of Congress.

Subsection (l) directs the Office of Technology Assessment to study the public facilities and infrastructure needs essential to the defense industrial base and to report biennially to Congress with appropriate recommendations.

Subsection (m) applies the Davis-Bacon prevailing wage standards to the construction, repair, or alteration of projects and the installation of equipment funded by a loan, loan guarantee, or grant extended under this section.

Subsection (n) directs the President to report to Congress every two months, listing all loans, loan guarantees, and commitments for loan guarantees issued under this section.

Subsection (o) contains definitions of terms used in Section 303A. The terms "State" and "United States" each include, in addition to each of the 50 States, the District of Columbia, the Commonwealth of Puerto Rico, Guam, the Virgin Islands, the Northern Mariana Islands,

American Samoa, the Trust Territory of the Pacific Islands, and any other territory or possession of the United States. The term "apprenticeship plan" is also defined.

Section 3 amends various sections of the Defense Production Act of 1950, as follows:

Subsection (a) amends the language of the Declaration of Policy to bring the purpose of the Act in keeping with present-day national defense and national security needs. In particular, the amendment calls upon executive agencies and departments to assess continuously the capability of the defense industrial base to satisfy both near-term and increased mobilization production requirements.

Subsection (b) amends the loan guarantee authorizing section of the Defense Production Act (Section 301) by increasing from $38,000,000 to $50,000,000 the threshold amount beyond which individual loan guarantees must be submitted for review by Congress. The subsection also amends the Congressional review procedure for such loan guarantees by shortening the review period from 60 to 30 days of continuous session and provides for an expedited approval through a concurrent resolution of both Houses of Congress.

Subsection (c) amends the direct loan section of the Defense Production Act (Section 302) by reducing the Congressional review period for loans over the threshold amount from 60 to 30 days of continuous session and provides for an expedited approval for such loans through a concurrent resolution of both Houses of Congress.

Subsection (d) would extend the termination date of the authorities of the Defense Production Act from September 30, 1982, to September 30, 1987.

Subsection (e) would repeal section 720 of the Defense Production Act, the National Commission on Supplies and Shortages, the authority for which was terminated in 1977.

Subsection (f) adds a new subsection to Section 701 of the Defense Production Act requiring any contractor entering into an offset agreement of more than $5 million in connection with the sale of defense articles or services for use by a foreign nation to report annually to the Secretary of the Treasury the totals for the three preceding years of all such offsets, classified by material or services. Reports are due by June 1 of each year beginning with 1983. "Offset" means any international transaction between a buyer and seller that provides nonmonetary compensation which may include, but not be limited to, the transfer of production or technology to the buyer as a consideration for the purchase of a particular item or service. This subsection prohibits the Secretary of the Treasury from disclosing the reported information except to the Congress, and requires an annual report from the Secretary by October 1 to the Congress on the total amount of offsets broken down by category of material or services and by recipient country.

The offset reporting requirements of the new subsection terminate 5 years after the date of enactment of the subsection.

Changes in Existing Law Made by the Bill, as Reported

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is

enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

DEFENSE PRODUCTION ACT OF 1950

* * * * * * *

[DECLARATION OF POLICY

[SEC. 2. In view of the present international situation and in order to provide for the national defense and national security, our mobilization effort continues to require some diversion of certain materials and facilities from civilian use to military and related purposes. It also requires the development of preparedness programs and the expansion of productive capacity and supply beyond the levels needed to meet the civilian demand, in order to reduce the time required for full mobilization in the event of an attack on the United States or to respond to actions occurring outside of the United States which could result in the termination or reduction of the availability of strategic and critical materials, including energy, and which would adversely affect the national defense preparedness of the United States. In order to insure the national defense preparedness which is essential to national security, it is also necessary and appropriate to assure domestic energy supplies for national defense needs.

[In order to insure productive capacity in the event of such an attack on the United States, it is the policy of the Congress to encourage the geographical dispersal of the industrial facilities of the United States in the interest of the national defense, and to discourage the concentration of such productive facilities within limited geographical areas which are vulnerable to attack by an enemy of the United States. In the construction of any Government-owned industrial facilities, in the rendition of any Government financial assistance for the construction, expansion, or improvement of any industrial facilities, and in the procurement of goods and services, under this or any other Act, each department and agency of the Executive Branch shall apply, under the coordination of the Office of Defense Mobilization, when practicable and consistent with existing law and the desirability for maintaining a sound economy, the principle of the geographical dispersal of such facilities in the interest of national defense. Nothing contained in this paragraph shall preclude the use of existing industrial facilities.]

DECLARATION OF POLICY

SEC. 2. (a)(1) In view of continuing international problems, the Nation's demonstrated reliance on imports of materials and components, and the need for measures to reduce defense production lead times and bottlenecks, and in order to provide for the national defense and national security, our defense mobilization preparedness effort continues to require the development of preparedness programs, defense industrial base improvement measures, and the expansion of domestic productive capacity and supply beyond the levels needed to meet the civilian demand. Also required in some diversion of certain materials and facilities from civilian use to military and related purposes.

(2) These activities are needed in order to improve defense industrial base efficiency and responsiveness, to reduce the time required for industrial mobilization in the event of an attack on the United States or to respond to actions occurring outside the United States which could result in the termination or reduction of the availability of strategic and critical materials, including energy, and which could adversely affect the national defense preparedness of the United States. In order to insure the national defense preparedness which is essential to national security, it is also necessary and appropriate to assure the availability of domestic energy supplies for national defense needs.

(b)(1) In order to insure productive capacity in the event of an attack on the United States, it is the policy of the Congress to encourage the geographical dispersal of the industrial facilities of the United States in the interest of the national defense, and to discourage the concentration of such productive facilities within limited geographical areas which are vulnerable to attack by an enemy of the United States.

(2) In the construction of any Government-owned industrial facility, in the rendition of any Government financial assistance for the construction, expansion, or improvement of any industrial facility, and in the production of goods and services, under this or any other Act, each department and agency of the executive branch shall apply, under the coordination of the Office of Defense Mobilization, when practicable and consistent with existing law and the desirability for maintaining a sound economy, the principle of the geographical dispersal of such facilities in the interest of national defense. However, nothing in this paragraph shall preclude the use of existing industrial facilities.

(3) To ensure the adequacy of productive capacity and supply, executive agencies and departments responsible for defense acquisition shall continuously assess the capability of the defense industrial base to satisfy near-term requirements as well as increased mobilization production requirements. Such assessments shall specifically evaluate the availability of adequate production sources, including subcontractors and suppliers, materials, and skilled labor, and professional and technical personnel.

(4) It is the policy of the Congress that plans and programs to carry out this declaration of policy shall be undertaken with due consideration for promoting efficiency and competition.

* * * * * * *

TITLE III—EXPANSION OF PRODUCTIVE CAPACITY AND SUPPLY

SEC. 301. (a)

* * * * * * *

(e)(1)(A) Except as provided in subparagraph (B), the maximum obligation of any guaranteeing agency under any loan, discount, advance, or commitment in connection therewith, entered into under this section shall not exceed [$38,000,000] *$50,000,000.*

(B) Guarantees which exceed the amount specified in subparagraph (A) may be entered into under this section only if the Committees on Armed Services of the Senate and the House of Repre-

sentatives have been notified in writing of such proposed obligation and (*i*) [60 days] *30 days* of continuous session of Congress have expired following the date on which such notice was transmitted to such committees and neither House of Congress has adopted, within such [60-] *30*-day period, a resolution disapproving such obligation. *or (ii) both Houses of Congress adopt a concurrent resolution approving such obligation. If the Congress adopts such a concurrent resolution, the guarantee involved may be made at any time after the date on which such concurrent resolution is adopted.* For purposes of this subparagraph, the continuity of a sesison of Congress is broken only by an adjournment of the Congress sine die, and the days on which either House is not in session because of an adjournment of more than 3 days to a day certain are excluded in the computation of such [60-day] *30-day* period.

(2) The authority conferred by this section shall not be used primarily to prevent the financial insolvency or bankruptcy of any person, unless

(A) the President certifies that the insolvency or bankruptcy would have a direct and substantially adverse effect upon defense production; and

(B) a copy of such certification, together with a detailed justification thereof, is transmitted to the Congress and to the Committees on Banking and Currency of the respective Houses at least ten days prior to the exercise of that authority for such use.

SEC. 302. To expedite production and deliveries or services to aid in carrying out Government contracts for the procurement of materials or the performance of services for the national defense, the President may make provisions for loans (including participations, or guarantees of, loans) to private business enterprises (including research corporations not organized for profit) for the expansion of capacity, the development of technological processes, or the production of essential materials, including the exploration, development, and mining of strategic and critical metals and minerals, and manufacture of newsprint. Such loans may be made without regard to the limitations of existing law and on such terms and conditions as the President deems necessary, except that (1) financial assistance may be extended only to the extent that it is not otherwise available on reasonable terms and (2) no such loan may be made in an amount in excess of $48,000,000 unless the Committees on Armed Services of the Senate and the House of Representatives have been notified in writing of such proposed loan and (*A*) [60] *30* days of continuous session of Congress have expired following the date on which such notice was transmitted to such Committees and neither House of Congress has adopted, within such [60-day] *30-day* period, a resolution disapproving such loan[.] *or (B) both Houses of Congress adopt a concurrent resolution approving such loan. If the Congress adopts such a concurrent resolution, the loan involved may be made at any time after the date on which such concurrent resolution is adopted.* For purposes of this section, the continuity of a session of Congress is broken only by an adjournment of the Congress sine die, and the days on which either House is not in session because of an

adjournment of more than 3 days to a day certain are excluded in the computation of such [60-day] period.

* * * * * * *

SEC. 303A. (a) It is the purpose of this section to strengthen the domestic capability and capacity of the Nation's defense industrial base. The actions specified in this section are intended to facilitate the carrying out of such purpose.

(b)(1) The President, utilizing the types of financial assistance specified in section 301, 302, and 303, and any other authority contained in this Act, shall take immediate action to assist in the modernization of industries in the United States which are necessary to the manufacture or supply of national defense materials which are required for the national security or are likely to be required in a time of emergency or war.

(2) Such assistance shall be provided only to small- and medium-sized businesses, as defined by the Secretary of Commerce, unless the Preident transmits to the Congress a formal notification that the interests of national defense require an exception to this limitation.

(c) The Secretary of Defense, in consultation with the Secretary of Commerce, shall—

(1) determine immediately, and semiannually thereafter, those industries which should be given priority in the awarding of financial assistance under subsection (b);

(2) determine the type and extent of financial assistance which should be made available to each such industry; and

(3) with respect to the industries specified pursuant to paragraph (1), indicate those proposals, received under subsection (e), which should be given preference in the awarding of financial assistance under subsection (b) based on a determination that such proposals offer the greatest prospect for improving productivity and quality, and for providing materials which will reduce the Nation's reliance on imports.

(d)(1) The President shall extend assistance under sections 301, 302, and 303, and any other authority contained in this Act, to persons engaged in the expansion of the domestic capability and capacity to produce or process critical and strategic metals, minerals and materials, including—

(A) the conservation, substitution, and recycling of such metals, minerals, and materials; and

(B) the development of processes which lessen or obviate the need for such critical and strategic metals, minerals, and materials.

(2) The President shall exercise the authority granted under this subsection in consultation with the Secretary of Defense, the Secretary of the Interior, the Secretary of Commerce, and the Director of the Federal Emergency Management Agency.

(e) The President, in extending assistance under subsections (b) and (d), shall extend such assistance on the basis of proposals submitted in response to a series of public solicitations, the first of which shall be issued by the President within ninety calendar days following the date of the enactment of this section.

(f)(1) Any contract for financial assistance which is awarded under subsection (b) or (d) and which utilizes financial assistance through

purchase agreements specified in section 303 shall provide that the President has the right to refuse delivery of the items specified in such contract and to pay the person involved an amount equal to the amount by which the price for such items, as specified in the contract involved, exceeds the market price, as determined by the Secretary of Commerce, for such items on the delivery date specified in such contract.

(2) Financial assistance under subsections (b) or (d) shall not be extended to assist establishments relocating from one area to another or to assist persons whose purpose is to divest, or whose economic success is dependent upon divesting, other persons of contracts theretofore customarily performed by them, except that such limitation shall not be construed to prohibit such financial assistance for the expansion of an existing business entity through the establishment of a new branch, affiliate, or subsidiary of such business entity if the President finds that the establishment of such branch, affiliate, or subsidiary will not result in an increase in unemployment of the area of original location or in any other area where such entity conducts business operations, unless the President has reason to believe that such branch, affiliate, or subsidiary is being established with the intention of closing down the operations of the existing business entity in the area of its original location or in any other area where it conducts such operations.

(g) (1) There are authorized to be appropriated to carry out the provisions of subsections (b), (c), and (d) not to exceed $1,000,000,000 for each fiscal year beginning with fiscal year 1983 and continuing through fiscal year 1987. Such sums shall remain available until expended.

(2) (A) In the use of loan guarantees, price guarantees, and direct loans as Federal financial incentives to accomplish the objectives of this section, the President may utilize the borrowing authority of the Treasury to the extent that the estimated ultimate net cost of such incentives to the Government does not exceed the toal of appropriations made by the Congress to carry out the provisions of subsections (b), (c), and (d). Such estimates shall be based upon the past experience of the actual costs of Federal financial incentives under this Act and related expenses.

(B) The use of loan guarantees, price guarantees, and direct loans under this section and the use of the borrowing authority of the Treasury under this subsection shall be effective for any fiscal year only to such extent or in such amounts are are provided in advance in appropriations Acts.

(h) (1) The President shall take immediate action to develop and implement a national program to train workers in skills—

(A) which the President determines are necessary in the industries identified under subsection (b), (c), or (d); and

(B) which the President determines are in short supply or are anticipated to be in short supply.

(2) (A) Assistance under this program shall be in the form of a grant to a State board of vocational education or other agency or agencies designated by the Governor of the State involved. Such grants may be extended only if a State plan for a five-year program of skills training has been submitted to the President and approved by the President.

(B) The President may, to the extent possible—

(i) provide assistance in coordinating the State plans developed under this subsection; and

(ii) provide technical assistance and support services in the implementation and conduct of programs of skills training which are carried out under this subsection.

(3) The President shall not approve any State plan unless—

(A) the State plan has been developed with the management and workers of the industries involved and with public and private educational institutions of the State;

(B) the State plan includes workplace training and registered apprenticeship training programs;

(C) the State plan is designed to ensure meaningful opportunities for participation by minorities and women;

(D) the Governor of the State has certified in writing that the State plan will be carried out and that it meets the requirements of this subsection;

(E) the State plan includes—

(i) training;

(ii) upgrading skills; and

(iii) retraining of workers, in depressed industries, in surplus labor areas, or with occupational skills which might become obsolete because of industrial modernization or technological advancement, in skills which the President determines under paragraph (1) are necessary in the industries identified under subsection (b), (c), or (d) as necessary to the manufacture or supply of national defense materials which are required for the national security or are likely to be required in a time of emergency or war;

(F) any bona fide public or private training program engaged in training workers in skills described in paragraph (1) is considered eligible to deliver such training services upon written application to the State board of vocational education or other agency or agencies designated by the Governor of the State involved under paragraph (2)(A);

(G) the State employment and training council under Public Law 95–524 (or a comparable entity under a successor statute) has been given the opportunity—

(i) to participate in the development of the plan;

(ii) to review the plan for 30 days prior to its submission to the President; and

(iii) to submit written comments along with the submission of the plan to the President;

(H) the activities funded under this subsection will not duplicate facilities or services available in the area (with or without reimbursement) from Federal, State, or local sources, unless the plan provides evidence that alternative services or facilities would be more effective or more likely to achieve the objectives in paragraph (1) of this subsection;

(I) the plan contains assurances that the activities funded under this subsection will be coordinated to the maximum extent feasible with other employment related programs in the State, through joint agreements, where practicable, with programs funded under

the comprehensive Employment and Training Act (or a successor statute) to assure maximum participation of eligible participants under that Act (or statute) in training programs funded under this subsection, and through consultation and coordination with certified apprenticeship plans, where such plans are in effect, to ensure that the plan does not duplicate or undermine existing certified apprenticeship programs; and

(J) a certification is included which assures the following labor training standards and requirements will be met:

(i) Conditions of training shall be appropriate and reasonable in the light to such factors as the type of work, geographical region, and proficiency of the participant.

(ii) Appropriate health, safety, and other standards for training shall be established and maintained.

(iii) Appropriate workers' compensation or equivalent protection shall be provided to all participants.

(iv) No currently employed worker shall be displaced by any participant (including partial displacement such as a reduction in the hours of nonovertime work, wages, or employment benefits).

(v) No program shall impair existing contracts of employment.

(vi) No person shall be trained for a job (I) when any other employee in the same workplace or plant is on layoff from the same or any substantially equivalent job, or (II) when the employer has terminated the employment of any regular employee or otherwise reduced its workforce with the intention of filling the vacancy so created by hiring a participant whose training is assisted under this subsection.

(vii) No individual may be required to join a union as a condition of enrolling in a program assisted under this subsection in which only institutional training is provided, unless such institutional training involves individuals employed under a collective-bargaining agreement which contains a union security provision.

(viii) No funds available under this subsection may be used to assist, promote, or deter union organizing.

(4) Any grant to a State board of vocational education, or other agency or agencies designated by the Governor of the State involved under paragraph (2)(A), under this subsection shall be extended in any year only after the State involved has provided a contribution, from public or private resources, to carry out the State plan in an amount—

(A) in the first year of the State plan, equal to 10 per centum of the cost of the State plan for such year;

(B) in the second year of the State plan, equal to 20 per centum of the cost of the State plan for such year; and

(C) in the third year of the State plan, equal to 30 per centum of the cost of the State plan for such year;

(D) in the fourth year of the State plan, equal to 40 per centum of the cost of the State plan for such year; and

(E) in the fifth year of the State plan, equal to 50 per centum of the cost of the State plan for such year.

(5) A State's contribution may include "in kind" contributions of equipment, facilities, personnel, or services to the extent that such "in kind" contribution is utilized in carrying out the State's plan. No such "in kind" contribution may include equipment acquired under subsection (i).

(6) The President shall act upon each State plan not later than ninety days after the date on which such State plan is received. Such action shall be based upon the recommendations of the Secretary of Defense, the Secretary of Labor, and the Secretary of Education.

(7) No person shall be excluded from participation in, denied the benefits of, subjected to discrimination under, or denied training in the adminstration of or in connection with any such program because of race, color, religion, sex, national origin, age handicap, or political affiliation or belief.

(8) Not more than 5 percent of the amount of any grant made under this subsection may be used by a State board of vocational education, or other agency or agencies designated by the Governor of the State involved under paragraph (2)(A), for administrative expenses incurred in carrying out a State plan.

(9) Assistance under this subsection may be used to purchase and install equipment for training purposes. The purchase of any such equipment shall be done by means of competitive bidding.

(10) For purposes of installing Government-owned equipment pursuant to section 303(e), the term "industrial facilities", as used in such section, shall include vocational schools, other schools offering technical and vocational training programs, and any other location in which workers are trained pursuant to this subsection.

(11) There are authorized to be appropriated to carry out the provisions of this subsection not to exceed $250,000,000 for each fiscal year beginning with fiscal year 1983 and continuing through fiscal year 1987. Such sums shall remain available until expended.

(i)(1)(A) The President shall take immediate action to develop and implement a grant program to assist colleges, universities, and other institutions of higher education in obtaining and installing modern equipment which shall be used to train professional, scientific, and technical personnel who are needed in the industries identified under subsection (b), (c), or (d).

(B) All students and faculty studying, teaching, or conducting research at such an institution of higher education shall have access to such equipment for use in accordance with regulations and practices of such institution of higher education.

(2) Any college, university, or other institution of higher education which desires to receive a grant under this subsection may submit an application to such Federal department or agency as the President shall designate. Each such application shall—

(A) certify the cost of purchasing and installing the equipment involved; and

(B) contain such other information as the President deems necessary.

(3)(A) Each college, university, or other institution of higher education whose application is approved under this subsection may be required to provide a matching share of up to 50 percent of the cost of purchasing and installing the equipment involved.

(B) The purchase of any such equipment shall be done by means of competitive bidding.

(4) At the discretion of the President, equipment may be provided under section 303(e) to colleges, universities, and other institutions of higher education. For the purpose of such section, the term "industrial facilities" shall include colleges, universities, and other institutions of higher education.

(5) There are authorized to be appropriated to carry out the provisions of this subsection not to exceed $100,000,000 for each fiscal year beginning with fiscal year 1983 and continuing through fiscal year 1987. Such sums shall remain available until expended.

(j) Any equipment or plant financed through Federal assistance authorized by this section shall be of United States origin. No exception shall be made to this limitation unless the Secretary of Commerce makes a written determination that such equipment or plant of United States origin is not available and is not practicable to obtain.

(k) The Comptroller General of the United States shall monitor the implementation of this section, conduct such audits as he determines to be necessary, and submit an annual report of his findings to the Congress at the beginning of each session of the Congress. The first such annual report shall be submitted in the year following the enactment of the Defense Industrial Base Revitalization Act.

(l) In order to carry out the purposes of this section, the Office of Technolgy Assessment is directed to conduct a study of the public facilities or infrastructure essential to the defense industrial base, and, at the beginning of each Congress, to report to the Congress with appropriate recommendations for measures to avoid serious impediments to the production and distribution of materiel.

(m)(1) All laborers and mechanics employed for the construction, repair, or alteration of any project, or the installation of equipment, funded, in whole or in part, by a guarantee, loan, or grant entered into pursuant to this section shall be paid wages at rates not less than those prevailing on projects of similar character in the locality as determined by the Secretary of Labor in accordance with the Act entitled "An Act relating to the rate of wages for laborers and mechanics employed on public buildings of the United States and the District of Columbia by contractors and subcontractors, and for other purposes", approved March 3, 1931 (40 U.S.C. 276a et seq.) and commonly known as the Davis-Bacon Act.

(2) Guaranteeing agencies shall not extend guarantees and the President shall not make loans or grants for the construction, repair, or alteration of any project, or the installation of equipment, unless a certification is provided to the agency or the President, as the case may be, prior to the commencement of construction or at the time of filing an application for loan, guarantee or grant, if construction has already commenced, that these labor standards will be maintained at the project.

(3) With respect to the labor standards specified in this subsection, the Secretary of Labor shall have the authority and functions set forth in Reorganization Plan Numbered 14 of 1950 and section 276(c) of title 40, United States Code.

(n) On October 1, 1982, and on the first business day of every second month beginning after such date, the President shall transmit a report

to both Houses of the Congress listing all loans, loan guarantees, and commitments for loan guarantees which were issued under this section during the two calendar months preceding the transmittal date of the report involved.

(o) For purposes of this section—

(1) the term "apprenticeship plan" means a plan approved by the Secretary of Labor pursuant to the National Apprenticeship Act (29 U.S.C. 50 et seq.);

(2) the term "State" means any of the several States, the District of Columbia, the Commonwealth of Puerto Rico, Guam, the Virgin Islands, the Northern Mariana Islands, American Samoa, the Trust Territory of the Pacific Islands, or any other territory or possession of the United States; and

(3) the term "United States" means the several States, the District of Columbia, the Commonwealth of Puerto Rico, Guam, the Virgin Islands, the Northern Mariana Islands, American Samoa, the Trust Territory of the Pacific Islands, and any other territory or possession of the United States.

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TITLE VII—GENERAL PROVISIONS

SEC. 701. (a) * * *

* * * * * * *

(e)(1)(A)(i) Any person signing a contract which involves the sale of any defense article or defense service for use by a nation other than the United States and which includes an offset agreement in excess of $5,000,000 shall file an annual report with the Secretary of the Treasury. Each such report shall include the total of all offsets, classified by the category of the defense material or defense services involved, entered into by such person during the three calendar years preceding the year in which such report is filed. The first such annual report shall be filed with the Secretary of the Treasury not later than June 1, 1983. Subsequent annual reports shall be filed not later than June 1 of each year.

(ii) Except as provided in subparagraph (B) and notwithstanding any other provision of law, including section 552 of title 5, United States Code (commonly known as the Freedom of Information Act), the Secretary of the Treasury shall not disclose, except to the Congress, any information required to be reported pursuant to this subparagraph..

(B) Not later than the first October 1 occurring more than ninety days after the date of the enactment of this subsection and not later than each October 1 occurring after such October 1, the Secretary of the Treasury shall submit to the Committee on Banking, Housing, and Urban Affairs of the Senate and to the Committee on Banking, Finance, and Urban Affairs of the House of Representatives a report on the total number of contracts reported pursuant to subparagraph (A) and the total amount of offsets required by such contracts. Such report shall contain a breakdown of offsets by category of defense material or defense services involved and by recipient country.

(2) For purposes of this subsection—

(A) the term "offset" means any international transaction be-

tween a buyer and seller that provides nonmonetary compensation which may include, but not be limited to, the transfer of production or technology to the buyer as a consideration for the purchase of a particular item or service; and

(B) the term "person" means any individual, sole proprietorship, partnership, or corporation.

(3) This subsection shall cease to be effective five years after the date of the enactment of this subsection.

* * * * * * *

SEC. 717. (a)) Title I (except section 104), title III, and title VII (except sections 708, 714, and 719) of this Act, and all authority conferred thereunder shall terminate at the close of [September 30, 1982] *September 30, 1987: Provided*, That all authority hereby or hereafter extended under title III of this Act shall be effective for any fiscal year only to such extent or in such amounts as are provided in advance in appropriation Acts. Section 714 of this Act, and all authority conferred thereunder, shall terminate at the close of July 31, 1953. Section 104, title II, and title VI of this Act, and all authority conferred thereunder shall terminate at the close of June 330, 1953. Title IV and V of this Act, and all authority conferred thereunder, shall terminate at the close of April 30, 1953.

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[NATIONAL COMMISSION ON SUPPLIES AND SHORTAGES

[SEC. 720. (a) SHORT TITLE.—This section may be cited as the "National Commission on Supplies and Shortages Act of 1974".

[(b) FINDINGS.—(1) The United States is increasingly dependent on the importation from foreign nations of certain natural resources vital to commerce and the national defense.

[(2) Nations that export such resources can alone or in association with other nations arbitrarily raise the prices of such resources to levels which are unreasonable and disruptive of domestic and foreign economies.

[(3) Shortages of resources and commodities are becoming increasingly frequent in the United States, and such shortages cause undue inconvenience and expense to consumers and a burden on interstate commerce ad the Nation's economy.

[(4) Existing institutions do not adequately identify and anticipate such shortages and do not adequately monitor, study, and analyze other market adversities involving specific industries and specific sectors of the economy.

[(5) Data with respect to such shortages and adversities is collected in various agencies of the Government for various purposes, but is not systematically coordinated and disseminated to the appropriate agencies and to the Congress.

[(c) PURPOSES.—It is the purpose of this Act to establish a national commission to facilitate more effective and informed responses to resource and commodity shortages and to report to the President and the Congress on needed institutional adjustments for examining and predicting shortages and on the existence or possibility of shortages with respect to essential resources and commodities.

[(d) ESTABLISHMENT OF COMMISSION.—There is established as an independent instrumentality of the Federal Government a National

Commission on Supplies and Shortages (hereinafter referred to as the "Commission"). The Commission shall be comprised of thirteen members selected for such period of time as such Commission shall continue in existence (except that any individual appointed to fill a vacancy occurring prior to the expiration of the term for which his predecessor was appointed shall be appointed for the remainder of such term) as follows:

[(1) The President, in consultation with the majority and minority leaders of the Senate and the majority and minority leaders of the House of Representatives, shall appoint five members of the Commission from among persons in private life;

[(2) The President shall designate four senior officials of the executive branch to serve without additional compensation, and may appoint additional nonvoting ex officio members from agencies having jurisdiction over areas being considered by the Commission;

[(3) The President of the Senate, after consultation with the majority and minority leaders of the Senate, shall appoint two Senators to be members of the Commission and the Speaker of the House of Representatives, after consultation with the majority and minority leaders of the House of Representatives, shall appoint two Representatives to be members of the Commission to serve without additional compensation.

[(e) CHAIRMAN AND VICE CHAIRMAN.—The President, in consultation with the majority and minority leaders of the Senate and the House of Representatives shall designate a Chairman and Vice Chairman of the Commission.

[(f) COMPENSATION.—Each member of the Commission appointed pursuant to subsection (d)(1) of this section shall be entitled to be compensated at a rate equal to the per diem equivalent of the rate for an individual occupying a position under level III of the Executive Schedule under section 5314 of title 5, United States Code, when engaged in the actual performance of duties as such a member, and all members of the Commission shall be entitled to reimbursement for travel, subsistence, and other necessary expenses incurred in the performance of their duties.

[(g) FUNCTIONS OF THE COMMISSION.—It shall be the function of the Commission to make reports to the President and to the Congress with respect to—

[(1) the existence or possibility of any long- or short-term shortages; employment, price or business practices; or market adversities affecting the supply of any natural resources, raw agriculture commodities, materials, manufactured products (including any possible impairment of productive capacity which may result from shortages in materials, resources, commodities, manufactured products, plant or equipment, or capital investment, and the causes of such shortages, practices, or adversities);

[(2) the adverse impact or possible adverse impact of such shortages, practices, or adversities upon consumers, in terms of price and lack of availability of desired goods;

[(3) the need for, and the assessment of, alternative actions necessary to increase the availability of the items referred to in paragraph (1) of this subsection, to correct the adversity or practice affecting the availability of any such items, or otherwise to mitigate the adverse impact or possible adverse impact of short-

ages, practices, or adversities upon consumers referred to in paragraph (2) of this subsection;

[(4) existing policies and practices of Government which may tend to affect the supply of natural resources and other commodities;

[(5) necessary legislative and administrative actions to develop a comprehensive strategic and economic stockpiling and inventories policies which facilitates the availability of essential resources;

[(6) the means by which information with respect to paragraphs (1), (2), (3), (4) of this subsection can be most effectively and economically gathered and coordinated.

[(h) REPORTS OF THE COMMISSION.—The Commission shall report not later than December 31, 1976, to the President and the Congress on specific recommendations with respect to institutional adjustments, including the advisability of establishing an independent agency to provide for a comprehensive data collection and storage system, to aid in examination and analysis of the supplies and shortages in the economy of the United States and in relation to the rest of the world. The Commission may, until March 31, 1977, prepare, publish and transmit to the President and the Congress such other reports and recommendations as it deems appropriate.

[(i) ADVISORY COMMITTEE.—(1) The Commission is authorized to establish such advisory committees as may be necessary or appropriate to carry out any specific analytical or investigative undertakings on behalf of the Commission. Any such committee shall be subject to the relevant provisions of the Federal Advisory Committee Act.

[(2) The Commission shall establish an advisory committee to develop recommendations as to the establishment of a policy making process and structure within the executive and legislative branches of the Federal Government as a means to integrate the study of supplies and shortages of resources and commodities into the total problem of balanced national growth and development, and a system for coordinating these efforts with appropriate multi-State, regional and State governmental jurisdictions. For the purpose of carrying out the provision of this paragraph there is authorized to be appropriated not to exceed $150,000 to remain available until March 31, 1977.

[(j) STAFF AND POWERS OF THE COMMISSION.—(1) Subject to such rules and regulations as it may adopt, the Commission, through its Chairman, shall—

[(A) appoint and fix the compensation of an Executive Director at the rate provided for level III of the Executive Schedule under section 5314 of title 5, United States Code, and such additional staff personnel as is deemed necessary, without regard to the provisions of title 5, United States Code, governing appointments in the competitive service, and without regard to chapter 51, and subchapter III of chapter 53 of such title relating to classification and the General Schedule under section 5332 of such title; and

[(B) be authorized to procure temporary and intermittent services to the same extent as is authorized by section 3109 of title 5, United States Code.

[(2) The Commission or any subcommittee thereof is authorized to hold hearings and to sit and act at such times and places, as it may deem advisable.

[(3) The Commission is authorized to contract with public or private agencies, institutions, corporations, and other organizations.

[(k) ASSISTANCE OF GOVERNMENT AGENCIES.—Each department, agency, and instrumentality of the Federal Government, including the Congress, consistent with the Constitution of the United States, and independent agencies, is authorized and directed to furnish to the Commission, upon request made by the Chairman, such data, reports, and other information as the Commission deems necessary to carry out its functions under this Act.

[(1) AUTHORIZATION OF APPROPRIATIONS.—There is authorized to be appropriated to the Commission not to exceed $1,484,000 to remain available until March 31, 1977, to carry out the provisions of this Act.]

ADDITIONAL VIEWS OF HON. MARY ROSE OAKAR

I am especially pleased to be associated, as a cosponsor, with this important legislation because it represents a realistic approach to our national security. I want to highlight the emphasis that this legislation puts on modernization of our industrial base.

The real issues that face us today are unemployment, capital investment, and a decaying infrastructure. Unless we can solve these problems, our defense capability will be inadequate because our industrial base will continue to erode. These problems can be intensified and exacerbated by the "boom and bust" cycle of defense spending. That is why modernization, more specifically, industrial conversion, is the key to the kind of healthy local economy that solves these problems and thus creates a sustained defense readiness.

I represent a district in northern Ohio which has seen in recent months, years, an epidemic of plant closings, layoffs, and shutdowns. Foundries, assembly plants, and small businesses are closing in my state, jobs are being lost, not because of contract expirations or because there are no markets, but because these manufacturers cannot afford the cost of converting to the kind of production that will keep them competitive and allow them to develop new product lines and apply new technologies.

We have companies in Cleveland which are obvious candidates for industrial innovation, whether it is robotics or waste disposal—they need assistance for the capital investment and retraining that conversion requires. If we can't assist them, then we can't afford a defense industrial base. We need to send the message loud and clear to the government officials who will have responsibility for reviewing applications for assistance under the Defense Production Act that these amendments of 1982 are designed to administer emergency aid to the suppliers and subcontractors on whom we depend for having the nuts and bolts, the micro-chips and trained workers, when, and above all, where we need them.

Application of these provisions for spurring technical and managerial innovation in new industrial fields should be given priority. The intent of this legislation is to promote the modernization of our crippled industrial base in order to improve productivity and quality, as well as reduce our dependence on foreign imports. Only then can we truly say that we have insured our national security and our defense capability.

MARY ROSE OAKAR.

MINORITY VIEWS TO ACCOMPANY H.R. 5540, THE DEFENSE INDUSTRIAL BASE REVITALIZATION ACT

The undersigned Minority Members of the Banking Committee endorse H.R. 5540, the Defense Industrial Base Revitalization Act, as a major initiative to reverse the severe deterioration in our basic industries that threatens our national security.

In July, 1981, the House extended the Defense Production Act of 1950 for one year so that our Committee could have the opportunity to conduct an extensive series of hearings and could develop amendments to that law to strengthen our nation's ability to respond in the face of war or national emergency.

The Economic Stabilization Subcommittee held 26 days of hearings and compiled testimony from 125 witnesses, including representatives of Federal, state and local governments; industry; small and large businesses; labor; banking; professional societies; universities; defense prime contractors and subcontractors; the military; and Members of Congress. From the more than 2,600 pages of testimony taken during those hearings came this bipartisan proposal. When the legislation was reported favorably from Subcommittee, the vote was 19–3 and it was reported by the Full Committee on a voice vote.

We feel that the need for a stronger defense industrial base has been clearly demonstrated. More importantly, at the same time that the House is being asked to vote for the largest defense budget in the history of the United States, our Committee has had extremely convincing testimony that, in fact, this country does not have the ability to produce nor the capacity to surge in a time of emergency. Equally as critical is the fact that we do not have the underlying level of subcontractors necessary to maintain the defense establishment. We could point to several industries vital to national security which no longer exist domestically or which lack the capacity to meet sudden increases in defense requirements: the list would be alarming.

The magnitude as well as the severity of the problems this legislation addresses are difficult to grasp because we as a nation find it difficult to face reality when it appears potentially so dismal. No matter at which industry our Committee looked, we discovered at the least a malaise and more often a terminal patient. Classified testimony the Department of Defense made us acutely aware of the predicament facing us today. Many of our other witnesses brought home the bleak prospects for the future unless we are willing to take strong measures to shore up the defense industrial base.

It should be evident from these remarks that our primary purpose in supporting H.R. 5540 is to strengthen our national security. As part of the testimony of Representatives Butler, Clinger and Pritchard we received a report prepared for the House Wednesday Group on National Security and the Defense Industrial Base. That study read like a laundry list of the defense headaches. The report stated:

> While there appears to be a general cor ensus that the U.S. should increase resources devoted to defense, it is not clear whether the defense industrial base, as presently constituted, is capable of effectively utilizing present proposed budget increases. More questionable is the ability of the defense industrial base to "surge"—to increase production rates rapidly to meet emergency needs.

It identified as problem areas industrial preparedness, specifically lead times for developing and producing defense systems, subsystems and components; shortages in subcontractor capacity; shortages of skilled manpower; obsolete and inefficient plants and machinery; rapid increases in unit production costs; a shrinking supplier base; dependency on foreign sources, and legal and administrative "bottlenecks." The report continued:

> Because of these problems, fundamental changes are needed in the way the Department of Defense and the defense industry do business. These can be made within a free enterprise, private ownership, democratic system, and they must be made if the U.S. is to get the necessary military epuipment for the increased budget dollars. In the absence of these changes, defense spending could simply feed the inflationary spiral.

This report is not alone in identifying these points as weak links in our national defense. But it is widely recognized that increasing defense spending pressures on an already strained supply base would only add to the demand for scarce output and would cause even higher program costs and longer production times. In addition there would probably be further disruption of commercial markets as the government forced commercial buyers to seek foreign sources.

To meet these challenges the Defense Industrial Base Revitalization Act proposes to make available assistance only to small and medium-sized companies which require assistance in industries which the Secretary of Defense and Secretary of Commerce have designated to be priority industries for national defense purposes. The assistance will be available through the Defense Production Act in the form of purchase commitments, price guarantees, loan guarantees or loans. This is a targeted approach with a historical precedent.

During the period 1950–56 when the Defense Production Act was used to establish a "crash program" to meet a variety of defense-related shortcomings, the Truman and Eisenhower Administrations took the initiative to use these financing tools to achieve the production levels necessary for us to win the Korean War. Employing the principle of "probable ultimate net cost," the government was able to leverage the $2.1 billion in funds authorized under the Defense Production Act into $8.4 billion in defense-related contracts. Although some of the contracts were acknowledged to be a total loss to the government when they were signed, such as research and exploration costs, in fact the ultimate net cost was $900 million. The ratio of cost to gross transaction was almost ten to one. At a time when much of our time is spent trying to get the most "bang" for the federal buck, that is not a bad example for us to consider.

We expect that the Department of Defense would employ purchase commitments and price guarantees as the most cost effective means of

assistance under this legislation. When coupled with multiyear procurement authorization and a five year extension of Defense Production Act authority as requested by the Administration we feel that small businesses, vendors and subcontractors who have been increasingly reluctant to bid on government contracts will return to this market. They will have a greater incentive because they will be dealing in a more stable market; the government will benefit because more competition will mean lower prices.

It would be ideal if that competition could occur without any government intervention, but in today's world there is no such thing as a free market. The condition of our auto, steel and semiconductor industries is a clear example of how the world market functions. Foreign government direct subsidies now jeopardize our national security by driving American manufacturers out of selected markets. Where that póses a direct threat to our reactive capability, must respond.

The Administration has suggested that the Economic Recovery Program will stimulate these industries once the effects of that program have taken hold. We agree that that would be the least intervention by the Federal Government and would be preferable, except for the uncertainty of the timetable. This legislation is structured to provide immediate stimulus to the highest priority defense industrial base industries. It is because we are faced with a crisis in those industries and the strength of our industrial preparedness bears so directly on national security that we can justify this assistance. A revitalized industrial base and an expanded production capacity for critical metals and materials are the cornerstones for reduced dependency on foreign sources, a stronger United States and a more stable international situation.

An integral part of this legislation is the development of a national program to address the manpower shortages that exists or are expected to exist in these priority industries. Grant assistance is to be provided to states which qualify and which agree to provide some matching funds from both public and private sources over a five year period. The state plan must include ten percent of the funds in the first year and increase to fifty percent by the fifth year. The need for these skilled people and the need for the private sector to contribute heavily to their training are recognized as critical to this effort to stabilize and eventually revitalize the defense industrial base.

In a speech last year to the Council on Economics and National Security, Senator Harrison Schmitt stated:

> Maybe one of the most serious problems we face is that of trained people. We have a deficiency of people with advanced degrees in the mineral industries, and related engineering and scientific professions, that is as serious as our dependence on mineral imports * * * (A)nd the preliminary estimates are that we have an annual shortfall in all science and engineering professions—an advanced-degree shortfall—of close to 15,000 young men and women a year. Fifteen thousand on top of an already significant deficiency. A back of the envelope calculation the other day, in one of the hearings, came up with a number that it's going to cost us, collectively, at least a billion dollars a year to reduce that shortfall to zero, and that only includes current activities.

> * * * It is in your interest and in the national interest to begin to be part of the educational system again, and in a real and substantive way: you have to convince your investors and stockholders that that is the most important thing you can do for their future. Because if it continues, everything that I'm talking about here, everything that you've been talking about here today, is just so much smoke. We won't have the people to carry out decisions.

We would like to reiterate our belief that the business community should be willing to contribute to this program as we would expect labor to do. "In kind" contributions are encouraged to allow the maximum degree of flexibility in structuring a plan best suited to the circumstances of each state, industry and labor group. Also, we hope to see national coordination on a state level with assistance from the Federal Government to avoid duplication in the development of programs and reduce costs whenever possible.

Grants to institutions of higher education are available to install modern equipment to be used in training professionals, technicians and engineers needed in the designated industries. This also is a logical and necessary step to help attain the objectives of H.R. 5540.

We mentioned above that a number of reports and studies have been issued on the defense industrial base. These usually make reference to the role of the Defense Production Act. We are pleased that the bill incorporates almost all of the recommendations made by the Members of the House Wednesday Group who appeared before the Subcommittee. Amendments to the Defense Production Act are included in H.R. 5540 to streamline and update the Declaration of Policy; to eliminate the section on the National Commission on Supplies and Shortages which expired in 1977; to provide for expedited review procedures of loan and loan guarantee requests, and, to provide a five year extension for the Act. This is the first time that the Defense Production Act would be extended for longer than two years and the cost benefits are expected by the Administration to be substantial over that longer period.

One provision of the Defense Production Act that has not been addressed legislatively but which deserves our attention is the current state of the National Defense Executive Reserve. This pool of executive talent is expected to be available to perform necessary federal functions in the event of a national emergency. From its peak of 5000 members the NDER is now down to approximately 2000 and most of the participants are getting on in age. We need to encourage participation through active recruitment and through more active cooperation in this area between government and industry.

In conclusion we want to make clear that our support for H.R. 5540 is based on the following points. The condition of our defense industrial base is approaching a critical state: this legislation provides targetted assistance to reverse that decline. Although increased defense spending may be necessary, the defense industrial base cannot cost effectively meet those demands in its preesnt state: this legislation provides a relatively low cost solution to meet present and future needs. Manpower shortages in critical industries will be addressed with private sector involvement.

We understand and can appreciate the objections that the Office of Management and Budget has to the cost of this bill and to the use of Title III authorities of the Defense Production Act. However, the following response by William S. Long, Deputy Under Secretary for Acquisitions Management in the Department of Defense, to a question by one of our colleagues regarding the deficiencies of the free market system helps illustrate the need for some Federal involvement in strengthening the industrial base:

> Mr. LONG. I think part of the answer to that, at least, is perhaps in the way we do business in the Defense Department to the extent that we are looking at that segment of the industrial base.
>
> We harp a lot on competition and I think properly so. But we always seem to talk about it in the context of the people who supply us should compete. But in my observation we failed to realize in the past that buyers need to be competitive also. I do not think we have been very interested in attracting investment, in attracting or holding our supplier base.

Our purpose is to improve that system. In the words of Mr. Wylie during the Full Committee markup of this bill:

> I think, Mr. Chairman, that the purpose of this bill is laudatory. We want to help small business get a piece of the defense capability wherever possible, which I think at the same time would help provide a broad base to help produce critical materials for both our defense and commercial requirements. I think, also, it could help provide the mechanism to rebuild the structure which allows for orderly and rapid change from commercial to defense production in time of national emergency.

If we are to be able to respond to that challenge, whether military or economic, we must begin the preparation now. Realistically, we should emphasize economic preparedness in today's world over war preparedness. As we have already seen during the oil embargo, the threat of an embargo in the absence of war is a much greater weapon than a protracted conflict. Or as the Falkland crisis demonstrates, it can be a major weapon in conjunction with military action.

We urge our colleagues to support H.R. 5540 as the most effective means of revitalizing the defense industrial base and thereby reducing our dependence on foreign sources for materials, minerals, and metals. A sound economy is essential to our national defense and this bill makes a strong contribution to both sectors.

J. WILLIAM STANTON.
CHALMERS P. WYLIE.
STEWART S. MCKINNEY.
JIM LEACH.
STAN PARRIS.
GEORGE C. WORTLEY.
MARGE ROUKEMA.
BILL LOWERY.
JAMES K. COYNE.
DOUGLAS K. BEREUTER.

ADDITIONAL VIEWS OF REPRESENTATIVE STANFORD E. PARRIS AND REPRESENTATIVE STEWART B. McKINNEY ON H.R. 5540

As a cosponsor of H.R. 5540, I would like to take this opportunity to express some additional observations for the record.

First of all, I would like to commend the Chairman and the ranking member for their work in formulating this important piece of legislation.

The Defense Industrial Base Revitalization Act represents a major step forward in the development of an industrial base capable of responding to a national emergency. Of primary importance to this legislation are the amendments to Title III of the Defense Production Act of 1950 (50 U.S.C. App. 2091 et seq.).

Title III of the Defense Production Act of 1950 was directed at the expansion of production capacity and supply. It provided broad authority for expanding supplies of materials. Programs supported by Title III were pursued with great success in the early 1950's: aluminum production was doubled; copper mine capacity was increased by a quarter; the Titanium industry was created; and so on. But in the years following the Korean War, the effectiveness of Title III diminished dramatically. This is clearly illustrated by the fact that since 1974 only two small projects have been funded by Title III. A key finding of the Defense Industrial Base Panel of the Committee on Armed Services, as stated by Congressman Charles E. Bennett before the Economic Stabilization Subcommittee, was that Title III was not being effectively utilized to develop domestic sources of critical materials. The subsequent rapidly growing dependence on foreign sources of critical materials was, diminishing our national security.

Numerous technical options dealing with critical materials shortages were discussed in the course of the hearings leading to this bill. One of the most intriguing and promising was the development of substitutes for a myriad of critical materials using a new class of materials: metal-matrix composites. Technological advances made in the course of the Department of Defense's technology thrust aimed at advancing these materials clearly indicate their utility in numerous defense applications. Further study of this research has identified metal-matrix composites as prime candidates for critical material substitutes. In the course of Senate Subcommittee on Science, Technology and Space hearings, a program plan aimed at developing domestic substitutes for critical and strategic materials was discussed and presented for the record. Of the materials covered in the plan, metal-matrix composites had the broadest application. Subsequent DOD planning in this key area had further defined research needs which must be met if full advantage is to be taken of these materials. These efforts would seem to be the type of developments for which Title III was designed, but in the DPA 1950 format such support was highly unlikely.

This bill amends Title III so as to yield a functional, efficient means of strengthening domestic capability. It allows for immediate action to assist in the modernization of industries in the United States which are essential to our security. It has the foresight to target small and medium-sized businesses for Title III assistance. Most of the aforementioned technologies and those described in the course of our hearings have been and are being developed by small and medium sized businesses. These critical sources of new technologies, ideas and materials are least able to support expansion without assistance from Title III. If assistance is deemed necessary for large business concerns, that option is provided for by the Act.

Title III as amended by this Act, assigns the Secretary of Defense the task of insuring that Title III is used in a manner suited to the changing needs of our national security. The Title III which worked so well in the 1950's, failed in the 1970's and 1980's. The active participation of the Secretary of Defense in the process of identifying those industries requiring assistance, as well as, the types of assistance needed to meet our security needs greatly enhances the Act and will keep it current.

Finally, the amended Title III contains a much stronger definition of that which it is designed to expand. That is, it directs the President to extend assistance to industries engaged in the expansion of:

> the domestic capability and capacity to produce critical and strategic metals, minerals and materials, including—
>
> (A) the conservation, substitution, and recyling of such metals, minerals, and materials; and
>
> (B) the development of processes which lessens or obviates the need for such critical and strategic metals, minerals and materials.

This far more definitive description of where and why Title III should be used will result in a greater probability that it will be used, and use effectively.

STAN PARRIS.
STEWART B. MCKINNEY.

SUPPLEMENTAL VIEWS OF REPRESENTATIVE DOUGLAS K. BEREUTER—COMMITTEE REPORT ON H.R. 5540

Although I am a strong supporter of this legislation, I must object to the Committee's acceptance of the amendment altering Section 2(i)(1) of the bill. It deletes the 50-percent matching requirement for colleges, universities and other institutions of higher education seeking assistance in the purchase of technical and scientific equipment. Elimination of this matching condition means, in effect, that the land grant institutions and vocational technical schools of this nation, which are frequently viewed as less prestigious, will be squcezed out of the funding process in favor of the more politically potent and prestigious institutions of this county. All of that will be accomplished with little or no show of effort by the recipient institution.

Regardless of status or political influence, all higher education institutions of this country should be allowed a fair chance to receive these funds; therefore, I hope that this amendment in the bill will be subsequently deleted.

In addition, I would like to clarify a statement made in the Minority Views, of which I am a cosigner.

That statement mentioned the use of embargoes as a weapon of foreign policy. As far as this Member is concerned, this statement should be interpreted only to illustrate the possibility of embargoes of oil and mineral shipments to the United States by foreign countries. It is not a reference to or an endorsement of embargoes as a foreign policy tool of the United States.

DOUG BEREUTER.

DISSENTING VIEWS OF RON PAUL, GEORGE HANSEN, AND NORMAN SHUMWAY ON H.R. 5540

What does one do with a bill that defines "industrial facilities" as "colleges, universities, and other institutions of higher education"? Or a "defense" bill that the Department of Defense opposes? If you happen to be the House Banking Committee, you report it favorably to the House on a voice vote. But if you happen to be the House, you ought to launch it down the nearest memory hole as just one more massive mistake, one akin to the synfuels program that came out of the Banking Committee two years ago, also under the aegis of defense.

In his testimony before the Subcommittee on Economic Stabilization in March, Robert Dale Wilson, Director of the Office of Strategic Resources of the Department of Commerce, pointed out that some U.S. industrial capacity has declined in the past 10 years:

> In regard to copper, smelting and refining capacity have declined 7 percent and 8.5 percent respectively since 1970. Slab zinc capacity has declined 57 percent. Lead capacity is down 16.5 percent * * *.
>
> During the past decade we estimate declines have occurred in the following major fabricating areas:

	Percent
Nonferrous castings	−25
Copper rolling	−20
Copper and brass castings	−20
Electrometallurgical products	−15

Facts like these have incited some members to near hysteria, and in typical fashion, they want to solve the problem by throwing money at it.

The declining industrial base of the United States is a fact, but the Banking Committee does not seem to realize that it is the policies of the Congress that have caused the industrial base to deteriorate. Is our plant old and obsolete? The culprit is the punitive tax code. Are our refining and smelting capacities down? The culprit is so-called anti-pollution laws.[1] Are products formerly fabricated in the United States now being more cheaply overseas? The reasons are taxes, regulations, and a monopoly money system. In each case, the cause is Congress, not the market, yet some obviously have not yet grasped that fact. Before one can make a rational prescription, one must make a correct diagnosis. The Banking Committee has failed to do either.

There is a further complication. While the industrial base is deteriorating, this is not a problem of defense or national security, as the

[1] "Reform of regulatory policies is at the heart of the Administration's economic program. The very nature of processing operations requires large capital expenditures for pollution control and health and safety equipment. Surveys show that the nonferrous metals industries devoted an average of 18.8 percent of total capital outlays to pollution control during the 1970–1978 period; the comparable figure for all business was 5.5 percent."—Robert Dale Wilson, March 23, 1982. Testimony before the Subcommittee on Economic Stabilization.

proponents of this bill would have us believe. In his same testimony, Mr. Wilson pointed out that "The decline in domestic raw materials processing capacity has had little overall effect on defense." Why? Because

> Except in selected cases (e.g., titanium, beryllium) defense demand forms a relatively small part of a raw material's total demand. We estimate current defense share for the major metals as follows:

	Percent
Zinc	8
Lead	6
Copper	4
Aluminum	5

So while the industrial base is deteriorating, that is an economic problem, not a defense problem. The issue of defense is a red herring. "National security" has always been a prime excuse for legislation that is otherwise potently indefensible. And so it is in this case. The Defense Department witness before the Subcommittee on Economic Stabilization on March 23 stated bluntly: "We cannot support the proposed legislation [H.R. 5540] * * *. We do not believe that the proposals in H.R. 5540 are appropriate."

Since the issue is clearly not one of defense but one of economics, it becomes obvious that H.R. 5540 is simply another corporate welfare bill. Rather than attacking the federal policies that have caused our industrial base to deteriorate, the Committee is proposing more of those same policies. The patient has been poisoned, and now he is being offered more poison as an antidote.

The language of the bill is very clear. It would force the President, within ninety days after its enactment, to begin a massive business subsidy program that could total $50 billion in new loans and loan guarantees, according to estimates provided by the Subcommittee's staff. H.R. 5540 says, and we quote:

> (b) The President, utilizing the types of financial assistance specified in sections 301 [loan guarantees] 302 [direct loans], and 303 [guaranteed prices and purchase agreements], and any other authority contained in this [Defense Production] Act, *shall* take *immediate* action to assist in the modernization of industries in the United States. * * *
>
> The President, in extending assistance under subsections (b) and (d), *shall* extend such assistance on the basis of proposals submitted in response to a series of public solicitations, the first of which shall be issued by the President *within ninety calendar days* following the date of the enactment of this section. [Emphasis added.]

The moneys authorized to be appropriated in the bill amount to a "mere" $6.75 billion, less than one percent of the present federal budget. But through leveraging by borrowing from the Treasury [see subsection (g)(2) of the bill], the total amount involved could easily reach $50 billion over the five year life of the bill.

The government has already crippled the capital markets in this country. Another $50 billion in direct loans and loan guarantees, piled on top of the already $850 billion in loans and guarantees, could be

the proverbial straw that breaks the camel's—on in this case, the economy's-back.

Programs such as this do not—and cannot—create real capital. They can and do re-allocate existing capital, rewarding those businesses that are favorites of Congress or that can afford to hire the most persuasive lobbyists. Such political reallocation of capital is the major characteristics of socialist economies; it is antiethical to market economies. Because the market is ignored in such re-allocations, the economy deteriorates. If these loan and loan guarantee programs continue, we will see the rapid worsening of our industrial base, not its improvement. The opportunities programs such as this afford for corruption and favoritism have caused and will continue to cause major distortions and disruptions in our economy.

In his testimony before the House Banking Committee two years ago, former Chairman of the Council of Economic Advisors Alan Greenspan blamed the loan and loan guarantee programs as the major cause of inflation and high interest rates. Obviously, if the government allocates capital so as to manipulate the economy, it must either (1) drive interest rates higher, or (2) inflate the money supply, which drives prices higher, or (3) do both. As a matter of fact, for at least a decade, this government has chosen option (3) and has done both.

But it is not only the domestic loan and loan guarantee programs that have stopped our economy "dead in the water:" It is also the foreign loan and loan guarantee programs. If defense were the overriding concern as the proponents of this bill maintain, then why have they not proposed an end to the loan guarantee programs that aid both our foreign competitors and our enemies? Why do we continue to force the American taxpayers to subsidize the transfer of technology to Communist governments? Why do we continue to subsidize through grants, loans, and loan guarantees non-Communist nations which are major economic competitors in the world market? Isn't it a bit irrational to wring our hands in public over the sad state of our defense industrial base and then to continue to subsidize our adversaries and competitors? Let's quit guaranteeing loans to Poland, the Soviet Union, Eastern Europe, and China. Let's stop subsidizing investment in Western Europe and Japan. Only when such steps are taken will we even begin to believe all the rhetoric we have heard about our deteriorating defense industrial base. We urge our colleagues to defeat this bill.

RON PAUL.
GEORGE HANSEN.
NORMAN SHUMWAY.

DISSENTING VIEWS OF ED BETHUNE AND ED WEBER ON H.R. 5540

We cannot support the Committee's bill to "revitalize the defense industrial base." We believe the bill is unnecessary, overly costly and ultimately destructive to those industries it seeks to protect. More importantly, this bill will cause direct and irreparable harm to the housing and automotive sectors of the economy—already reeling from the effects of high interest rates.

Over the vocal opposition of the Administration, this bill has been pushed through our Committee. It has received more support than it deserves due primarily to heavy lobbying by companies "back in the district" who feel they are unable to survive without government assistance.

First of all, the bill is unnecessary. When the size of this Administration's defense budgets for last year and the next few years is considered, it is clear that any well-managed industry or establishment important to our national defense that should be able to obtain private market financing. Furthermore, any defense-related industry that is not now operating profitably or does not have that prospect, is an industry unlikely to be vital for our future security.

Second, this bill establishes a program that is ultimately destructive to the cause it seeks to advance. This bill is analogous to the concept of trade protectionism—where governments assist uncompetitive companies to permit them to gain or retain business. The problem comes about when the government's assistance is withdrawn. The unprotected company goes bellyup. (The other alternative, of course, is that the government can continue to provide protection ad infinitum, but the costs of that protection amounts rapidly.)

The domestic U.S. steel industry provides a good example. We have insulated U.S. steel producers from the market through tariffs, quotas, trigger price mechanisms and threats and pressure on foreign governments. The domestic steel industry that has survived is obsolete, inefficient and could not survive unprotected against its foreign competitors. With the program contained in this bill, we are essentially creating new and permanent "wards of the state" that will never again survive without some combination of loans, guarantees, price supports and purchase agreements.

Third, we object to this bill because of its cost. The budget impact of this bill is $6.75 billion. This figure is astonishing enough without even considering where in the budget room will be found to finance it. Of greater concern, however, is the effect this bill will have on levels of government borrowing. H.R. 5540 contains no specific limits on the amount of loan guarantees that the government can provide. It has been estimated that this bill could lead to a new drain on credit markets over the next five years of up to $50 billion.

One of the Administration's budget documents makes some startling revelations about the federal government's domination of the credit markets. (Major Themes and Additional Budget Details, Fiscal Year 1983, Office of Management and Budget, p. 195; see also An Analysis of the President's Budgetary Proposals for Fiscal Year 1983, Congressional Budget Office, p. 29–32). In 1981, the Federal Government absorbed over 35 percent of the total available credit in the United States. Add to this $50 billion in additional borrowing resulting from this bill and the Federal Government will be absorbing an even higher percentage of total available credit. At a time when the automobile industry and the housing industry are withering from the effects of high interest rates, future borrowing provided for in this bill will have a devastating effect on both industries.

Over the years, the Defense Production Act has been a vehicle for many pieces of questionable legislation. The Synthetic Fuels Corporation provides a sterling example. With firm backing from the oil industry and their friends in Congress, we have authorized $20 billion to provide incentives to nurse a premature industry through its period of incubation. What was begun "with great fanfare and billions of federal dollars less than two years ago, today stands demoralized and uncertain.

Its future is jeopardized by falling oil prices, high interest rates, soaring construction costs and an Administration determined to leave energy development almost entirely to the free market." (New York Times article, May 5, 1982.) A number of leading projects financed by the Synthetic Fuels Corporation have recently been cancelled. The only shale oil project still in existence survives solely because of federal price guarantees totaling $400 million, which have kept it afloat while guaranteeing that Uncle Sam will be stuck with making some uneconomic fuel "economic" through subsidies. But if we have learned anything from the synfuels program, we have learned that when federal government substitutes its wisdom for that of the markets, the markets' judgment inevitably proves wiser, and the taxpayer ends up poorer.

The Defense Industrial Base Revitalization Act and the synfuels program are only part of a larger and still growing problem in our government. Between 1976 and 1980, federal government loans and loan guarantees grew by 133 percent. Over this same period, federal spending increased 58 percent. The growth in credit programs can be attributed largely to the lack of any overall review process for determining the extent, effectiveness and impact of the programs. The majority of these programs are outside the budget process.

Until Congress enacts some format for mandatory credit budget review, these programs will continue to grow uncontrollably with incalculable adverse side effects on the economy.

We realize that Members will be tempted to support this legislation because there is something in it for everybody: aid to failing industries, extensive new job training, and higher education programs. We would argue, however, that the overall costs of the credit programs cannot be justified by the few real benefits the bill would provide. We urge defeat of this bill.

ED BETHUNE.
ED WEBER.

EXECUTIVE OFFICE OF THE PRESIDENT,
OFFICE OF MANAGEMENT AND BUDGET,
Washington, D.C., May 5, 1982.

Hon. J. WILLIAM STANTON,
U.S. House of Representatives, Washington, D.C.

DEAR CONGRESSMAN STANTON: I understand that the Banking, Finance, and Urban Affairs Committee plans to mark up the Defense Industrial Base Revitalization Act (H.R. 5540) in the near future. As you know, the bill provides $6.75 billion in price supports, loan guarantees, and other subsidies for domestic production of defense-related materials. While I appreciate your concerns about the Defense industrial base readiness, I find it difficult to support these provisions.

I would like to take this opportunity to explain the Administration's position.

As indicated in the President's recent Minerals Policy Statement, it is our policy to rely on the marketplace to improve the competitiveness of our industries and thereby reduce reliance on foreign sources. Several recent initiatives, including the Defense build-up, tax reductions, improved depreciation schedules to foster investment, and reduction of regulatory burdens will significantly strengthen our materials posture. These broad measures to strengthen the economy are already in place, and will be increasingly effective in the recovery.

The strategic stockpile provides substantial additional protection to insure that defense material needs can be met in case of declared national emergencies. Planned stockpile acquisitions will further improve this protection.

For these reasons, we strongly oppose H.R. 5540. We understand that Senator Schmitt recently introduced a bill which would extend existing Defense Production Act authorities for five years. We support such an extension. This would ensure that Title I and Title II authorities will be preserved and that Title III authorities are available, should analysis indicate that they would be more cost-effective than stockpile measures.

Thank you for the opportunity to express the Administration's views.

Sincerely,

DAVID A. STOCKMAN, *Director.*

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